policy REVIEW

Summer 1993 Number 65 $5.50

A Doctor's Warning to the White House
Lois J. Copeland M.D.

Clinton as Commander in Chief
An Interview with Dick Cheney

Clinton's Bush-League Economy
Carlos Bonilla

Inside the GOP Budget Battle
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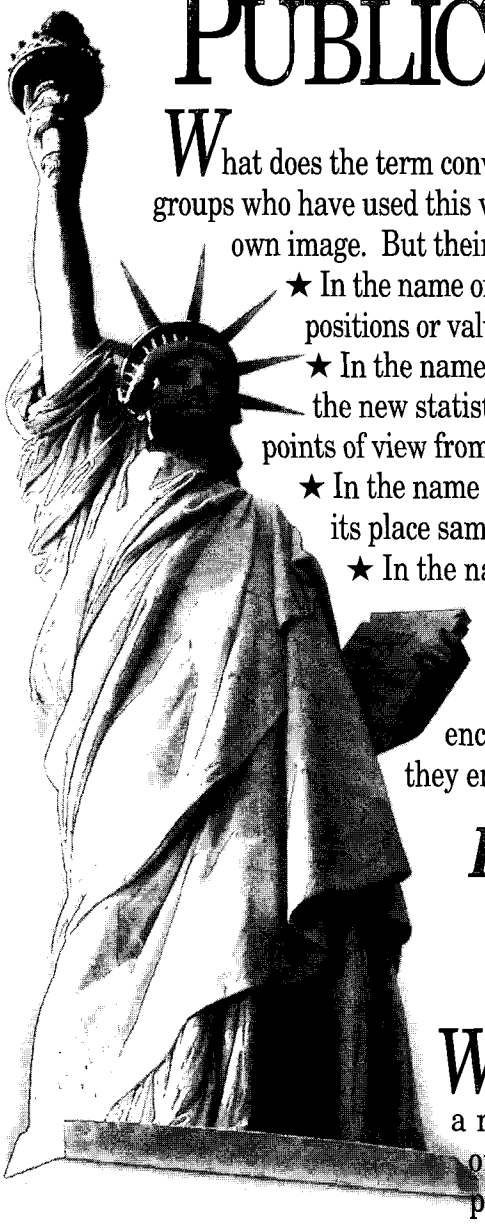

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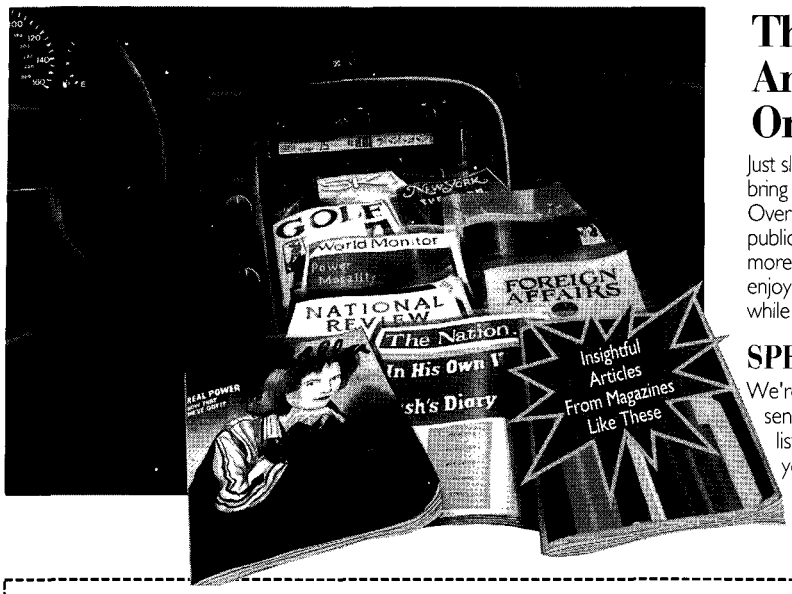

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Please Do No Harm

A Doctor's Battle with Medicare Price Controllers

Lois J. Copeland M.D.

I am a physician, an internist in a solo practice, and I am in mourning for the dignity and nobility of the medical profession.

I started in my current practice in Bergen County, New Jersey, 18 years ago when I took over the practice of a retiring physician. I was seven months pregnant with my first child at the time, and I went into labor while making rounds on a Friday night. I was back at work full-time three days later. I returned to work as promptly after the births of my three other children. It was not unusual in the early years of my practice to find me arriving at the emergency room, a baby under each arm, to see a patient.

I consider myself an old-fashioned doctor. I try to get to know my patients, and their families, in an effort to provide quality care to them. Because I have a large practice, and work 12 hours a day, I have been well compensated financially, but I do not charge outrageous fees, nor do I require my patients to come to see me more than is strictly necessary. I make house calls, and my practice includes a number of patients I care for at no charge. Over the years I have become close to my patients, many of whom are senior citizens; I regard a great number of them as my friends.

These close relationships, the opportunities to comfort and heal, and the intellectual challenges of medicine have been gratifying—so much so that despite the great difficulties of raising a young family and having so little time to spend with them, despite the long hours and intense effort my practice demanded, I have felt, until lately, richly rewarded by my work.

Patient Against Doctor Against Government

Most physicians know that this level of devotion to our profession is disappearing in America. Government intervention in medicine has taken away the dignity of the physician and the privacy of the patient-physician relationship, and it threatens the financial viability of private practice. Government price controls have restricted many physicians' freedom to care for government-insured patients adequately, reduced the number of physicians willing to care for these patients, and still has not reduced overall medical costs. Mountains of paperwork and continual wrangling with health-system bureaucrats are distracting physicians from the more important work of treating the sick, while shrinking profit margins and hassles caused by mandatory regulatory compliance are forcing many doctors out of private practice. We are seeing more and more forced rationing of care, especially for senior citizens.

And finally, the government has denied older Americans freedom of choice in health-care purchasing. The Medicare bureaucracy has attempted to prohibit doctors from making private contracts with their Medicare patients, even when no Medicare reimbursement is being sought, effectively turning the large majority of senior citizens in this country into disenfranchised, second-class citizens, with little voice in the intimate decisions of their own health care. Together, these federal interventions have degraded the medical profession, pitting patient against doctor against the government.

I decided to act against this degradation, and in 1991, along with five of my patients, I fought one part of the federal health system, Medicare Part B, as administered by the Health Care Financing Administration and the Medicare carriers. Our goal was to regain freedom of choice for those senior citizens who want full access to high-quality health care, as well as privacy and dignity in their relationship with their physician. Our story is a warning to those who, like the members of Hillary Clinton's task force, believe that the solution to America's health-care problems is government or third-party management.

The Distress of Medicare

My greatest distress as a physician in private practice has come from Medicare, specifically Medicare Part B, and the agencies that administer the Medicare program. Medicare is the government-sponsored health plan for Americans over 65 who are not actively employed, and the disabled. Every American over the age of 65 who collects Social Security is eligible for Medicare coverage.

Lois J. Copeland *is a physician in private practice in Hillsdale, New Jersey.*

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Photos: Margaret Bonilla

James Stewart and Trudy Drucker, two of the five patients who joined Dr. Copeland in suing the Medicare system.

Medicare is divided into two parts: Part A, which pays for most hospital care for the elderly, as well as some non-physician nursing-home and home health-care services; and Part B, which covers physician services and related expenses. Those eligible enroll in Part B by paying a premium that is deducted from their Social Security benefits. It is Medicare Part B that has caused some of my most disheartening and degrading experiences as a physician.

Medicare was conceived during the era of the Great Society programs of the 1960s. Then-President Lyndon Johnson envisioned Medicare as a low-cost, universal form of health insurance for the retired and elderly. Although its goals were noble, one of Medicare's unfortunate side effects was that private insurance companies eventually stopped offering health-insurance policies to retirees and senior citizens, since the market for such policies faded as Medicare participation grew. It has been said that President Johnson coerced insurers into dropping such coverage in order to guarantee Medicare participation by all seniors.

Today there are virtually no insurance companies offering primary, first-dollar health coverage to these groups. The great majority of elderly Americans are enrolled in Part B out of necessity; those who might choose another form of health coverage really have no available options. Enrollment is automatic unless specifically declined in writing. A 10-percent annual penalty prevails in the premium if enrollment is delayed.

Generally, physicians who see Medicare patients fall into one of two Medicare categories: participating or non-participating. Participating physicians are in direct contract with the government to provide services to Medicare patients; they bill their local Medicare carrier. The patient pays the doctor the co-insurance fee for the service, but the doctor collects the rest directly from Medicare. Non-participating physicians who are in contract with their patients are paid by their patient, and send a form to the Medicare carrier so that the patient can be reimbursed for the amount he paid to the physician, minus co-insurance. I always have been a non-participating physician. I have taken on Medicare patients gladly, but I want the minimum amount of government intrusion possible in the patient–physician relationship. I want to deal directly with my patients, not through a third party. I do not wish to work for the government; I work for my patients. I believe there is a great danger for my patients in my doing otherwise.

Price Controls and Sanctions

From the time I took over my practice in the early 1970s until approximately the mid-1980s, my experiences with Medicare were quite positive. The program was generously funded, and equal to the best of the private insurance programs. The bureaucratic problems were minimal; essentially, getting reimbursement from Medicare for a patient visit or service was no different than from any other insurance carrier. I and my patients were satisfied with the program, and I was happy to accept new Medicare patients.

The situation began to disintegrate during the mid-1980s when, faced with spiraling Medicare outlays and a mandate to cut costs, Congress enacted a number of initiatives designed to regulate doctors' fees for Medicare-covered services. While refusing to raise Medicare premiums for participants—a politically dangerous move, considering the number of elderly voters in America—Congress in 1985 imposed a temporary price freeze on Medicare physician services. Congress eventually lifted the freeze, but replaced it with a sweeping new Medicare pricing system, the Resource-Based Relative Value Scale (RBRVS), which was enacted in 1989 and phased in during 1992. The RBRVS system, which is still in place, has strict price caps for services

Federal price controls have taken from older Americans their freedom of choice in health care.

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and fines and sanctions for doctors not in compliance, and is coupled with controls over the volume of services a physician can provide through the Medicare system.

The RBRVS price limits fell far short of many doctors' actual costs of services, including mine, but the regulations prohibited physicians from charging more than the limiting charges on the RBRVS schedule. And as so often happens when price controls are in effect, many doctors immediately looked for ways around the limits. Some started limiting the number of Medicare patients they would see, or stopped seeing them altogether.

Many physicians solve the reimbursement dilemma by refusing to see new Medicare patients, and referring their old ones to another doctor.

In addition to the price controls, the Health Care Financing Agency (HCFA)—the division of the Department of Health and Human Services (HHS) that administers Medicare—and my state Medicare carrier set new reporting procedures under the RBRVS system for those seeking Medicare reimbursement. The new method required that my office file a complicated claims form, coded with specific Medicare designations, for each and every patient service I provided to a Medicare-enrolled patient, whether that patient was seeking reimbursement from Medicare or not. Filing an incorrect or improper claim could result in a $2,000 fine; overcharging or establishing a private agreement with a patient to pay more than the limiting charge for a service risked a similar fine, and potentially even a loss of license.

The effect of all these regulations was a staggering amount of paperwork for me and my office staff, and continually shrinking income from my Medicare patients. While the price I could charge my Medicare patients was frozen, or in some cases actually declining, my other expenses were going up. I continued to give my office staff their well-earned annual raises, and to pay increased prices for everything from office and medical supplies to garbage removal. Malpractice-insurance costs continued to climb, although they are more stable now than a few years ago. Medicare was paying only about 50 percent of the costs for services I provided to Medicare patients, a situation that continues today.

The Medicare Gap

A few examples of the current gap between my regular fees and Medicare reimbursement illustrates the problem. I generally charge one flat fee for return visits, other than comprehensive physicals, no matter how long the duration of the visit. This fee for non-Medicare patients is $60; the allowed Medicare charge for an intermediate visit is $36.81. My fee for an initial hospitalization of a non-Medicare patient, which includes initiation of a treatment plan, history, physical examination, and hospital chart documentation, is $275, but I am allowed to charge a Medicare patient only $122.71 for this same care. An electrocardiogram (EKG) is another common procedure performed by internists. I charge my non-Medicare patients $50 for an EKG, but the maximum charge allowed for my Medicare patients is only $32.33. Surgeons suffer even greater disparities. In my region, surgeons typically charge $1,200 to $2,000 for a carpal tunnel release, a common procedure performed on the wrist. Medicare allows a maximum charge of $300 for this surgery. With most surgeons paying more than $40,000 annually in malpractice insurance fees alone, it is no wonder that fewer of them are willing to accept new Medicare patients.

I found myself in the same bind as so many other doctors—raising fees for my younger patients to make up for the Medicare shortfall. My younger patients were often far less wealthy than my Medicare patients, and I was outraged at having to transfer additional costs onto these younger people—many had children in school and mortgages to pay. But my expenses were not frozen just because Medicare payments were. And I refused to engage in fraudulent activity just to compensate for my Medicare losses. The business side of my practice began to suffer, as did my morale.

I could have solved this dilemma, as many of my colleagues have, by refusing to take on new Medicare patients, or by telling my current Medicare enrollees to find another physician, or by refusing them timely appointments. But a number of my older patients were and are my friends, and I did not want to cut them off; it was not their fault that they had no alternatives to Medicare coverage. And I was troubled by the ethics of such a decision. How could I be the kind of old-fashioned doctor I had always been if I started turning away those who needed my help? How could I possibly refuse to treat a sick patient?

Confusion and Anger

Price controls and paperwork were not my only Medicare problems. The state carrier of Medicare, Blue Cross/Blue Shield of Pennsylvania, (which has a contract with HCFA to administer the Medicare program in New Jersey) often delayed reimbursement to my Medicare patients by challenging my medical decisions, denying payment for services already rendered, by requesting additional information for claims even when the diagnosis or treatment ordered was unquestionable, and sometimes by denying claims altogether, usually because of some administrative mistake originating not in my

Price controls and paperwork were not my only Medicare problems.

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office, but in the carrier's. One of these letters to a patient falsely stated that I was a chiropractor in explaining why my services had been denied payment.

Unfortunately, in these cases it is often the patient, and not the doctor, who is notified of the denial. Complicated, jargon-filled, official letters from the carrier can confuse and anger a Medicare patient; when the letter refuses or delays reimbursement on the basis of an alleged misdiagnosis or treatment error by the doctor, the result is often a rift between doctor and patient, with the patient accusing the doctor of improper care, or of holding up the patient's reimbursement.

This type of misunderstanding can go to extremes. A former patient arrived in my office one day angry over a Medicare reimbursement problem. Thinking I was at the hospital, she called me dishonest in front of my office staff, other patients and, most unfortunately, my 10-year-old daughter, who happened to be there at the time. The episode angered me and my staff, but deeply hurt my child. Although this patient eventually was made to understand that the mistake was not ours, I knew that our relationship had been too severely damaged to continue. After 17 years of caring for this woman and other members of her family, I had to ask her to find a new physician. This story illustrates the aspect of Medicare that I resent the most: the atmosphere of suspicion and distrust that has grown up between doctors and their patients because of Medicare's intrusion in the patient–physician relationship.

Hassle Letters

Appealing a Medicare denial is the doctor's job, not the patient's, because the physician must write a letter to the Medicare authorities justifying his or her treatment. I have a large file of what I call "hassle" letters: copies of letters I have written to the state Medicare carrier, and in some cases to HCFA or other Medicare oversight agencies, justifying my medical decisions, challenging the delays, the "down" or "up" coding of claims to a different (and always lower) level of payment, and the intimidating and sometimes threatening language

I have spent two hours a night writing protest letters to bureaucrats who had denied my patients reimbursement.

the various Medicare agents use in communicating with physicians and patients.

My hassle file is filled with many letters defending treatments that Medicare was obligated to cover. One letter defends daily hospital visits to a patient on a respirator and intravenous fluids who suffered from complete respiratory failure and terminal cancer. The Medicare bureaucrats suggested that daily treatment of this patient was excessive. As I stated in my letter of protest:

> This is the most outrageous denial I have ever received.... This person was absolutely in need of my professional services, and required daily medical attendance. Whether you wish to pay for the medical services or not does not affect the medical need. Mrs. Jones [not her real name] was well aware of the inadequacies or Medicare during her life ... [she] always paid her bills despite Medicare denial and was in full agreement of her responsibility to pay my bills despite your attempts to cut back on your insurance obligations. In addition ... how could any reasonable person know that Medicare would not support the hospitalization of a terminally ill patient on a respirator?

Medicare won't even let you mourn in peace. From another letter to the Medicare administrator:

> I returned from my vacation ... to receive your letter (a "medically unnecessary" denial letter) with regard to my visit to the Emerson Convalescent Nursing Home on June 6, 1988. Please be advised that I was required to visit at that time by the administration of the convalescent center, as Mr. Smith had passed away suddenly and it was necessary and required by the nursing home that I personally come and pronounce my patient. In the past year I had received communication from the Medicare Administration that visits for the pronouncement of death would be covered.... I did not feel it was appropriate or in good taste to call Mrs. Smith during her acute grief to notify her that the visit may or may not be covered by Medicare.

Writing these letters took a great deal of time. My office staff was already overburdened with paperwork, and I could not afford to hire someone with the medical expertise to respond adequately to all the denials. Since I was threatened with unconscionable fines, I always took them home to do at night. My family paid the price for this. I would come home from a full day of office visits followed by hospital rounds at 8:00 or 9:00 P.M., eat a quick dinner left for me on the table, and then spend another two or three hours writing letters to Medicare agencies.

Forbidden Private Contracts

By 1990, I had become very depressed by these government intrusions on my practice, and was seriously considering leaving medicine. I began speaking about my Medicare problems to many of my patients. In the fall of that year, a letter written by one of these patients appeared in the local newspaper under the title, "Medicare Red Tape Is Jeopardizing American Health Care." She professed her shock at hearing that I was contemplating leaving my practice. She wrote that her physician was being "driven from the profession in which she excels by the heavy hand of government bureaucracy."

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Photo courtesy of Lois Copeland

"I have traveled extensively since our victory in the freedom of choice trial, giving lectures and interviews, and encouraging patients and physicians to stand up for their rights." —Dr. Lois Copeland

Many of my older patients well could afford to pay me privately, and some wanted to make such an arrangement to help me meet my costs for providing their medical care. Under such a contract, I would provide a specific service for an agreed-upon fee—or in some cases, for no fee at all, since Medicare regulators threatened me with a $2,000 fine if I failed to charge any patient the deductible, and another $2,000 fine if I failed to file the proper form with Medicare. Several of my patients were poor, and I did not wish to charge them anything—not even the Medicare deductible. In such cases, no Medicare-reimbursement claims would be filed because reimbursement would not be sought. The Medicare regulators no longer would intrude in these patients' care when a private contract existed. I was still willing to see Medicare patients, and my own ethical standards would not allow me to turn away Medicare patients who could not pay outside the system, but for private contract patients over age 65, Medicare would not be able to interfere in the patient-physician relationship.

But such an agreement was prohibited by the Medicare carriers, who were backed up by HCFA. The justification for disallowing private contracts was that physicians would overcharge their elderly patients without the Medicare authorities acting as a watchdog. The implication was that a patient was not intelligent enough after age 65 to make his or her own decisions. So even if I treated someone privately, and no Medicare reimbursement was desired by the patient, I had to file the proper Medicare claims forms proving that I had not charged more than the maximum allowable fee on the RBRVS schedule—an insidious form of price control. No confidentiality was allowed to a patient over age 65: all visits and diagnoses had to be filed with the bureaucracy, or I would be fined $2,000 per occurrence of failure to comply.

The prohibition against such private contracts had been upheld in 1988, when Federal Appellate Judge Abner Mikva ruled in *New York State Ophthalmological Society* v. *Bowen* that a Medicare beneficiary would have to resign from Part B in order to privately contract. Judge Mikva's dictum resulted from the mistaken supposition of both the defendant and plaintiff in this case that the original Medicare law prohibited private contracting, a supposition that was stipulated by both plaintiff and defendant at the outset of the case. The Mikva ruling often has been used by the Medicare regulators to justify the prohibition of private contracts. This regulation not only unfairly restricted me, but took freedom of choice away from my patients, who could not contract for any medical services outside of the Medicare arena.

Few patients over 65 could afford to "go bare"—to risk

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having no health coverage at all—and no other coverage was available to people over 65 who were not actively employed. The grim fact was that in America, if you were retired, elderly, or disabled, you were forced into Medicare by lack of alternatives, and you lost the freedom to make personal medical decisions, as did your physician when treating you.

Stewart vs. *Sullivan*

My frustration and rage grew, but I decided I would not give up my practice or my Hippocratic ethic without a fight. I began a letter-writing campaign to my congressional delegation, to officials in HHS and HCFA, to other members of the medical and insurance communities, and even to the White House. The letters helped air my complaints, and I received replies to some of them, but the replies did not offer solutions, and nothing changed.

I attempted to stimulate private-sector interest in an alternative private insurance policy to replace Part B, and travelled to Connecticut to meet with one insurance executive who told me, "The golden age of medicine is dead." His vision of the future was clinics with hard benches and whatever doctor was on call that day taking care of the poor and the Medicare-enrolled. He saw no future for the private practitioner because we were "too inefficient."

It was then that I called the Library of Congress and found that the original Medicare statutes were still intact. I sought advice and support from medical and legal experts, and talked to my Medicare patients. A number of my Medicare-insured patients volunteered to join with me in a lawsuit to establish their freedom of choice of medical care and their right to contract for medical care outside the Medicare system. Of the 20 or so patients who volunteered to participate in the suit, my attorney and I chose five who represented a wide cross-section of my practice and of Medicare enrollees.

The five patients formed a diverse group, with different reasons for pursuing the case, but in common was their belief that their personal freedoms had been abridged by the Medicare regulation against private contracting. James Stewart had just turned 65 and entered into the Medicare system, and was angry at his sudden loss of the right and freedom to select the medical care and the doctors he desired and could pay for, a right he had enjoyed at age 64. Some physicians had stopped taking Medicare patients, shrinking the pool of care available to Medicare patients. When I asked him if he would go to court with me, he agreed on the condition that we found a good lawyer. As he said later, "Why should I wake up with fewer rights on turning 65 than I had the day before?"

One insurance executive told me, "The Golden Age of medicine is dead."

Joan Kennedy Taylor, my patient and a writer knowledgeable about constitutional law, was convinced that allowing private contracting might actually save the Medicare program. With Medicare outlays so far outpacing income, she argued that the Medicare trust fund soon could be bankrupt; private contracting by those who could afford to pay for their own care would save Medicare funds for those who were needy.

Connie Streich, my retired former office assistant, had helped hold my practice together when I first arrived; she remembered the days when Medicare transactions had been generous and simple, and was shocked at the monster that Medicare had become. Miss Streich had suffered her own problems with Medicare reimbursement since her retirement, requiring me to justify much-needed reimbursement; she was also my friend. She told a reporter later that she saw the toll the Medicare battles were taking on me, and said, "Really, I wanted to get involved to help Lois." Connie Streich was also one patient for whom I wanted to waive my fee, and therefore her deductible payment, but Medicare forbade me to do so or I would incur a $2,000 fine.

"Why should I wake up with fewer rights on turning 65 than I had the day before?"

Trudy Drucker, a patient of great devotion, was worried that I would have to stop taking Medicare patients or leave my practice, and did not want to lose me as her physician. Ms. Drucker also loved the prospect of a good fight, and she was willing to fight hard to keep the liberties she believed were essential to being an American.

Warren Klose, the last of our group, had been told by Medicare that he could not pay me for a visit he requested because the bureaucrats felt the visit had been medically unnecessary. His wife was upset that she could not appeal Medicare's decision because the amount was less than $100—the minimum allowable in the appeals process. Mr. Klose was angry at his and my abuse by the Medicare system, and wanted to protest the degrading treatment we had received.

Kent Masterson Brown, legal counsel for the Association of American Physicians and Surgeons, who had successfully battled the Medicare bureaucracy in Ohio, agreed to represent us, and began an intense study of the original Medicare statute and subsequent changes in the law. The American Health Legal Foundation, which supports litigation to resist compulsory political medicine, recognized the importance of this case and volunteered to help support the legal expenses. The Freedom of Choice Fund was initially started by many patient contributions, and the staffs of my area hospitals donated to it generously. With this backing, on January 31, 1992, these five patients and I filed suit in federal

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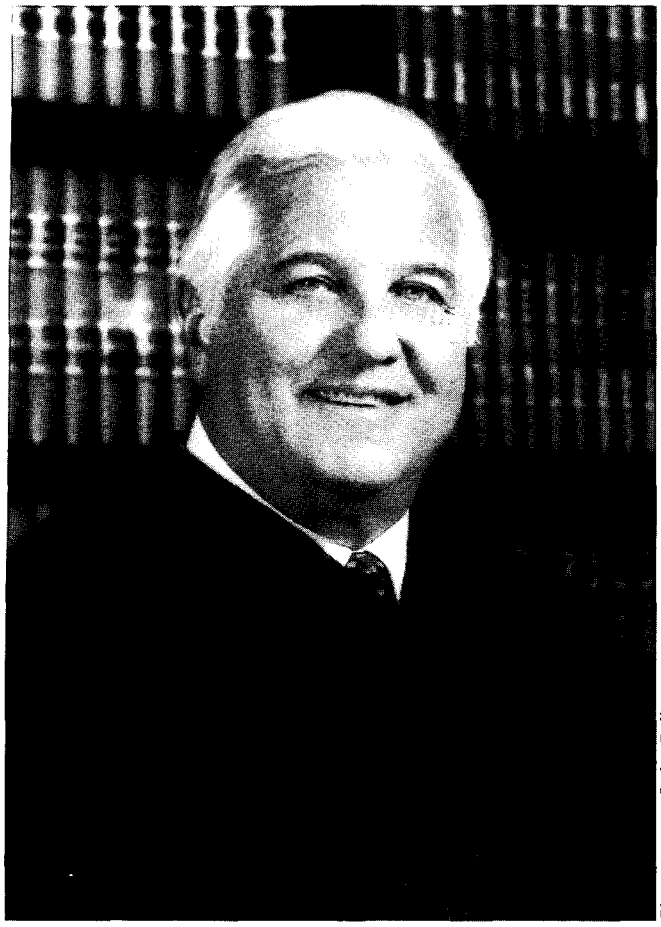

Photo courtesy Judge Politan

Judge Nicholas Politan ruled that the Secretary of Health and Human Services had not articulated a clear policy against private contracting.

court in Newark, New Jersey, to enable Medicare patients to contract privately for medical care outside Part B without resigning from Part B. Our case became known as *Stewart* v. *Sullivan.*

Our Honesty Used Against Us

Kent Masterson Brown was confident that we would win the freedom to contract because his research had revealed no explicit prohibition in the Medicare law or regulations published in the *Federal Register* against such arrangements. Medicare law repeatedly states that with respect to Part B, Medicare is an entitlement, not a compulsory requirement, and the original Medicare statute specifically states that nothing in the Medicare law prohibits a beneficiary from obtaining health-care services through any other means of payment or insurance. It appeared that HCFA and the carriers formulated their prohibition of the private contract by leaving out the implied "if" in the law discussing physician submission of claims. Services "for which payment is made under this part" does not translate into "all services for any medical need must be paid under this part." The bureaucrats then enforced their interpretation with threats and intimidation of physicians who may have wished to deal with their senior-citizen patients privately.

It may seem unbelievable to those who do not deal with government programs and the bureaucracies that administer them that physicians actually were coerced into following a regulation that did not exist. But physicians across the country had been told by their carriers and by HCFA that private contracts were prohibited by Medicare law. Physicians believed this must be true if we were so told. Physicians did not ask for proof, or check the statute itself, or ask to see the citation in the *Federal Register.* They made their judgment based on what they were told by the appropriate authorities. Until the lawsuit challenged this prohibition in court, physicians naturally assumed the prohibition was in the law. The great majority of physicians have honest, ethical natures, and the bureaucracy used these attributes against us.

An Absolute Victory

Our freedom-of-choice lawsuit, *Stewart* v. *Sullivan,* was heard in oral arguments on September 14, 1992, in federal court in Newark. Judge Nicholas Politan asked the U.S. attorney representing HHS to identify the source of the carriers' statements that seemed to prohibit private contracting. Mr. Robbins replied, "We don't know where those statements came from." Mr. Robbins also could not verify that Louis Sullivan, then-secretary of the Department of Health and Human Services, interpreted the Medicare Act to prohibit private agreements, or whether Dr. Sullivan would try to sanction me for treating patients outside the Medicare program.

Judge Politan did try to "flush out" the intent of the suit as a means for me to charge more than the limiting charges of the Medicare RBRVS schedule. Our attorney pointed out that private contracting would allow the doctor to charge more or less than the RBRVS rates, and that in any event, freedom of choice, and not allowable charges, was the point of the lawsuit.

Based on this testimony, as well as various internally contradictory statements in correspondence from HHS, Judge Politan ruled on October 26, 1992 that he did not believe that the secretary had clearly articulated a policy against private contracting. Judge Politan dismissed the case after finding for us on a critical point: if Secretary Sullivan had articulated a clear policy against private contracting, such a policy would constitute an "injury in fact," giving both me and my patients standing to sue. He stated that we, the plaintiffs, would find relief in his court.

We considered this ruling to be an absolute victory. Kent Masterson Brown stated in a press release after the decision, "If the Secretary does come forth with a clear policy [against the private contract], we'll be back in court immediately.... At present, there is nothing to prevent patients from seeking private care on a case-by-case basis. On reaching 65, patients become entitled to use Medicare benefits. This entitlement does not require patients to use those benefits to the exclusion of all other methods of providing for medical care."

The opinion in *Stewart* v. *Sullivan* upheld the idea that we citizens of the United States have the right to do that which we are not expressly prohibited from doing, as stated in the Ninth Amendment and as articulated in the Declaration of Independence. To say otherwise creates the dangerous context in which the citizen acts

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only by permission of the government or state, rather than by right.

After the Ruling

Since Judge Politan's ruling, I have accepted new Medicare patients with the understanding that, at some times and for some services, I might seek a private contract with them outside of Medicare to provide payment to me. This has not driven patients away, although patients who want to use Medicare exclusively are, of course, free to go to another doctor who will agree to that. Certainly it is far more ethical for a physician who cannot deal with Medicare for a particular service to offer the private contract to a person seeking medical help than to refuse to see the patient altogether. The plaintiffs all have remained in my practice.

Oddly, the case has received little publicity from the lay media. I have traveled extensively discussing the case with physicians, giving speeches and interviews in the medical press, and encouraging doctors and patients to stand up for their rights. Private contracting is spreading, but many physicians, still unfamiliar with the case, are afraid to cross the Medicare carriers and HCFA. I receive many calls each week asking me about the suit and the waiver form that I now use with private patients over the age of 65. As recently as March of this year, one of my wealthy older patients was denied care in Durham, North Carolina, because the clinic she went to for help in an emergency was not accepting new Medicare patients, even though she wanted to pay for treatment herself. She had to make a number of calls and obtain help from a friend to find a doctor who was willing to make a contract with her privately to provide her care. This patient was well aware that the private contract was lawful, because she had contributed $500 to the Freedom of Choice Fund.

Succeeding in this lawsuit has by no means solved all my professional problems. My income continues to shrink, and the regulations, paperwork, and expenses continue to increase. And I miss the special relationship I had with the senior citizens in my care before the imposition of coded claims, fines, and threats.

I still seriously consider leaving the profession that I love and for which I have sacrificed. As my son enters his first year of college this year, I cannot encourage him toward a career in medicine, even though both of his parents are dedicated physicians. Many young people of talent and ambition look at the health-care system in America today and see no future for themselves; many physicians in private practice are seeking other options. My hospital staff is giving a dinner this summer for a physician considerably younger than I am who has had the "courage" to leave medicine.

A Warning to the Health Task Force

The Medicare headaches that I and many other physicians have suffered are not unusual in the current system—in fact, they are routine. Medicare is really not a partisan issue, since both Republicans and Democrats have helped build the system. My problems with Medicare began during the Reagan administration, and it was George Bush's bureaucrats who denied my patients freedom of choice.

Folio

Problems with bureaucracy and red tape are likely to intensify under the Clinton administration.

But it seems likely that these problems will intensify under the Clinton administration. Having witnessed first-hand the ensnarement of doctors and patients in the Medicare web, I dread the prospect of government health care management. My chief concern about the Clinton health plan, whatever form it eventually takes, is that it will politicize the entire health-care delivery system, and dramatically increase restrictions on the way physicians are able to treat their patients, interposing the bureaucrat in all patient–physician encounters.

Managed competition, which now seems to be the cornerstone of the Clinton plan, is supposed to be a way to give all Americans access to health care. In reality, it may cause a number of serious side effects: individuals will have less choice in their health-care decisions; there may be less access to certain providers and fewer services overall; and development of the new technologies that have made American health care the best in the world will stagnate. The massive new bureaucracy that will be required to administer such a system will increase red tape and delays as well as costs. Price controls on health services will force doctors out of practice.

I cannot imagine continuing under such conditions; the danger is that the pool of talented, dedicated, innovative physicians will give way to doctors working not for their patients, but for a government or corporate paycheck. The civil servant mentality will predominate, rationing will be inevitable, and the Hippocratic ethic, which emphasizes the good of the patient, will disappear. Under such a system, the profession of medicine that Americans have known and come to rely on will cease to exist.

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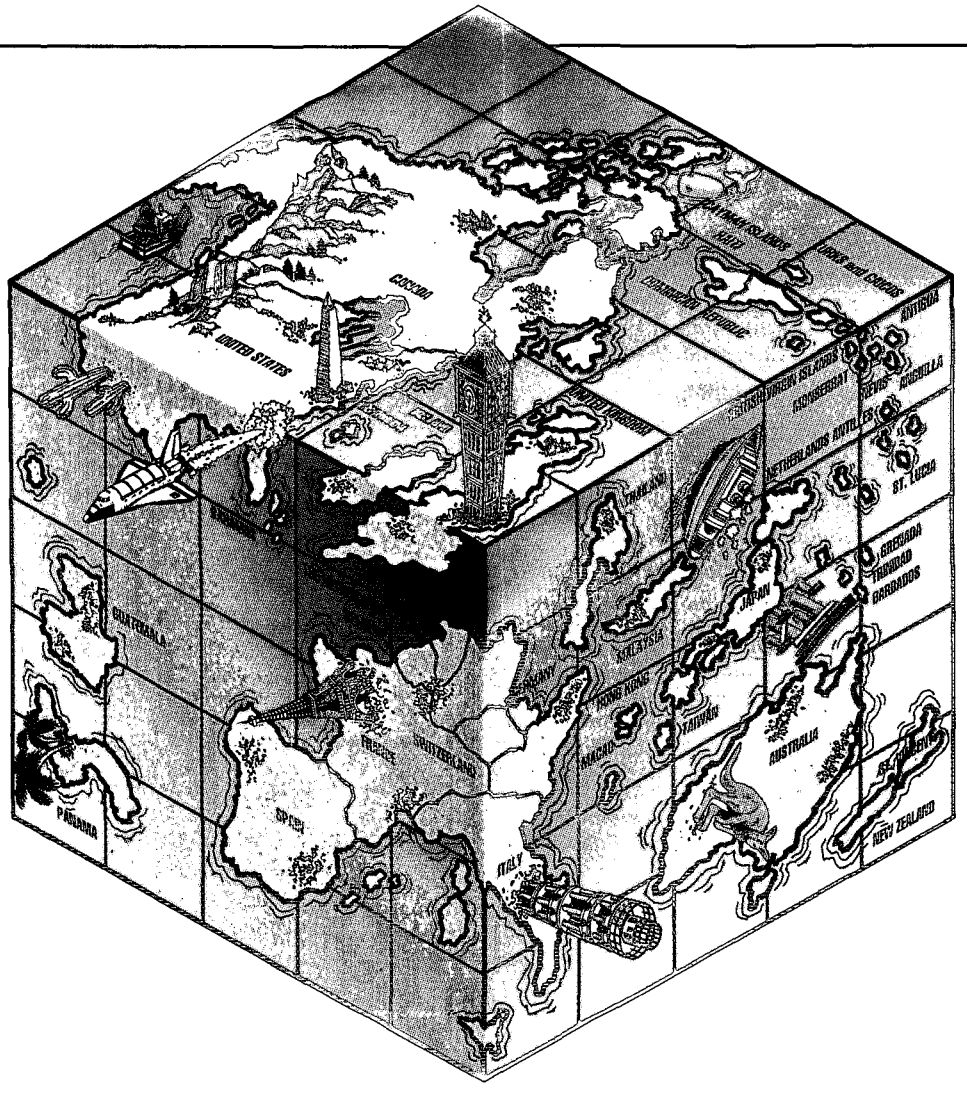

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Calm After Desert Storm

Dick Cheney on Tax Cuts, Price Controls, and Our New Commander in Chief

An Interview by Adam Meyerson

Dick Cheney is one of the strongest potential contenders for the Republican presidential nomination in 1996. He is a man of national and international experience: best remembered for his distinguished performance as secretary of defense during America's Desert Storm victory, he was also White House chief of staff under President Gerald Ford, and then House Republican Whip, one of the top leadership positions in Congress. Elected six times to the House of Representatives from Wyoming, he has proven vote-winning ability in a state that went 26 percent for Ross Perot last year. He comes from the West, a region where Republicans are now in trouble—and which they must recapture if they are to win back Congress and the presidency. He is one of the few Republican leaders widely respected by Democrats and independents. An economic conservative and a moderate on social issues, he probably also would be acceptable—no small feat—to all factions of the GOP.

His greatest challenge, should he aspire to national leadership, is to be a little bolder, a little more imaginative, a little more stirring in his rhetoric. His message is plain, no-nonsense, conventional, center-right Republicanism—lower taxes, limited government, freer markets, a strong defense. This message could prove very attractive to Americans after four years of Bill Clinton. But will it be enough to galvanize the political coalitions Mr. Cheney would need to win—and then to govern effectively? He already has won his countrymen's respect; can he now move them to action to cure America's economic ills and arrest its cultural breakdown?

I talked with Mr. Cheney in late May in his office at the American Enterprise Institute, where he currently is a senior fellow.

—A.M.

Policy Review: **It is now two years after the spectacular victory of the United States and its allies in Desert Storm. What objectives were achieved during this war?**

Cheney: The best way to evaluate Desert Storm is to consider what the world would be like today if we hadn't fought and won this war. If we had taken a pass on Saddam's occupation of Kuwait, by today he would have the eastern province of Saudi Arabia and would sit astride about 50 percent of the world's oil reserves, which he could control directly when you add up Kuwaiti, Saudi, and Iraqi oil reserves. He'd be able to dominate the rest of the reserves in the Persian Gulf. And he'd have nuclear weapons. We had to stop this from happening. And we did.

We did exactly what we set out to do in Desert Storm. We liberated Kuwait, and we destroyed Saddam's offensive capability. Those were the two objectives we talked about repeatedly in the run-up to the war, and once we achieved those objectives, we stopped operations.

P.R.: **What were President Bush's most important contributions to this victory?**

Cheney: The president laid out the broad strategy. He took a personal hand in organizing the international coalition that gave us political and military support. He managed the Soviet account. He worked with the United Nations and the major Arab leaders who sent troops to fight alongside U.S. forces. He gave the Defense Department clear direction in terms of the objectives. Then he let us fight the war and refrained from micromanaging the military campaign.

He also deserves credit for having the courage to avoid some of the mistakes that Lyndon Johnson committed in Vietnam. When I told him we wanted to call up a quarter of a million reservists, he never hesitated. He said, "Do it." When we said we needed to put a "stop-loss" order in effect so that everybody currently in the military would stay in for the duration, he said, "Do it." He consistently gave us the kind of political support that we needed to use military force to maximum advantage. That's one of the reasons we were so successful.

P.R.: **By contrast, how would you evaluate President Clinton's handling of the conflict in Bosnia?**

Cheney: I've been very nervous watching President Clinton deal with the Bosnian conflict. This has been his

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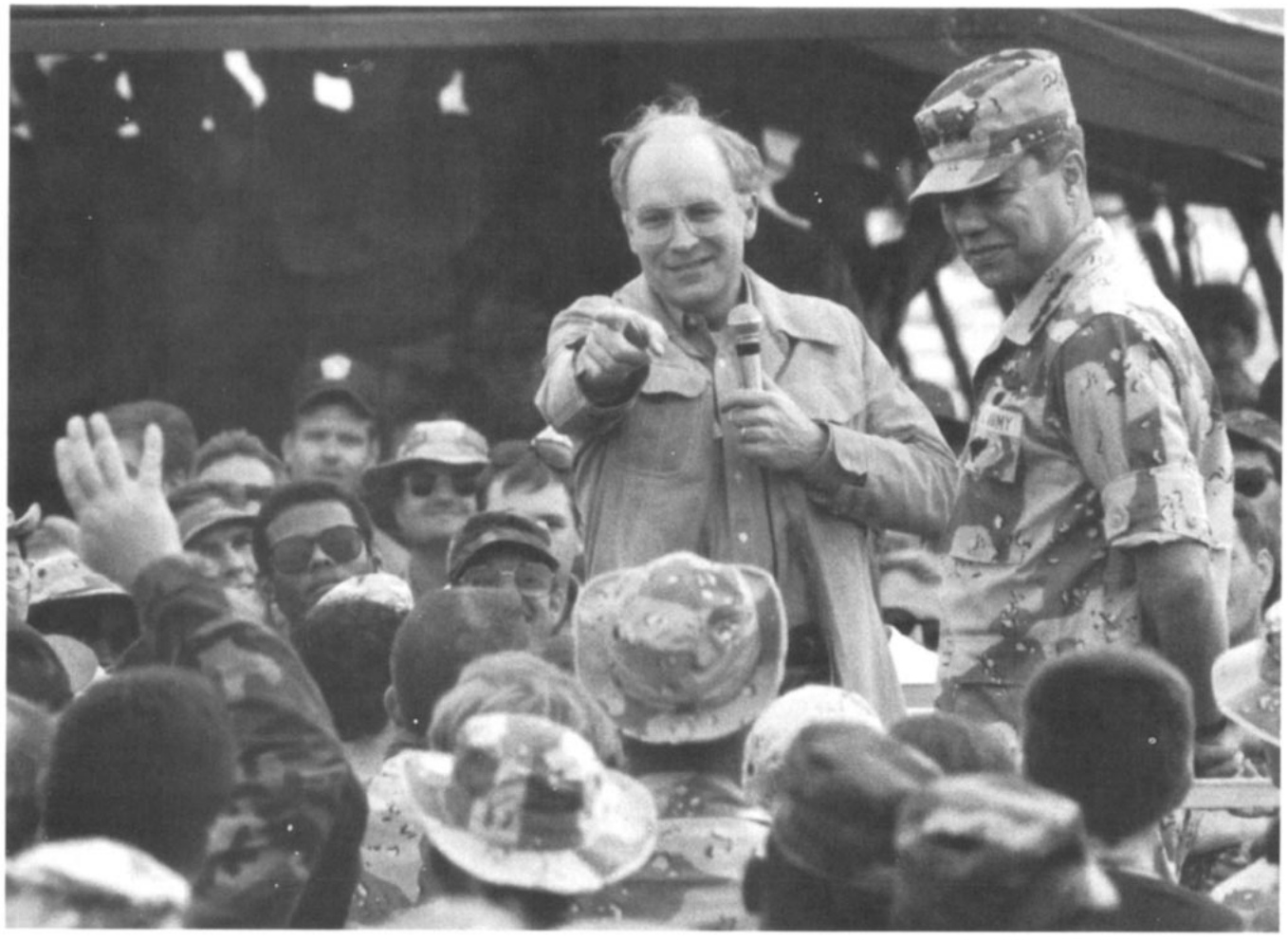

Dick Cheney visiting U.S. troops during Operation Desert Storm. "The first obligation of the federal government is to maintain the nation's security."

first test in foreign policy. He has finally decided, at least as of today, to refrain from a major additional commitment of U.S. military forces. That's the right answer in Bosnia. Yet, it was painful to watch him get there. Our allies have been very worried that he did not seem to know what he wanted to do, that he's been all over the lot. First he was aggressive, then he backed off. He talked a bold game during the campaign. Now he's reconsidered his position. The reconsideration has been sound, but the way he's managed it has created some problems for our major allies. This is their first experience with Bill Clinton, and I don't think it's been a reassuring one. But he's new and green, and maybe he's learned from it.

I don't think that advocates of U.S. military force to end the bloodshed in Bosnia have properly considered what would be entailed. Before you commit U.S. forces, there are certain questions you need to be able to answer. You need an objective that you can define in military terms. Our military knows how to liberate a country, destroy a navy, take down an air force; those are militarily achievable objectives. But if you say, "Go in and stop the bloodshed in Bosnia," that's not sufficiently clear to build a mission around. Does that mean you're going to put a U.S. soldier between every Bosnian Serb and Bosnian Muslim?

A second requirement is to specify rules of engagement. The soldier or marine in the trenches needs ground rules—what we call "rules of engagement"—about how he is to achieve his mission. Whom does he shoot? How much force can he use, and under what circumstances? That's very difficult to define in this nebulous kind of civil war that's been raging in Bosnia. Who's the enemy? And how do you tell the good guys from the bad guys? Is this a three-sided conflict among Serb, Muslim, and Croat, or a two-sided conflict between Muslim and Serb? That's never been very well defined.

You also need to know what constitutes victory. How would you define it? How would you know when you had achieved it? And finally, how do you get out? What's the end game? How do you wrap it all up? And what's the cost in terms of American lives in that involvement? Nobody answered these questions with respect to Bosnia.

Is there any reason to expect that an age-old conflict based on animosities that go back for hundreds of years is going to be ameliorated or ended by the temporary presence of U.S. military force? I don't think so. And for all of those reasons, I was, and still am, very reluctant to see us rely on U.S. forces to solve Bosnia's problems. I am afraid we would have an ill-defined mission, we would take significant casualties, and would get involved without knowing how we were going to get out.

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***P.R.:* You got out of Iraq without going all the way to Baghdad. Are you worried that Saddam Hussein is still in power today?**

Cheney: I'd rather he were not in power, but I don't see him at this point as a threat to any of his neighbors. In that part of the world, I'm more concerned about Iran. Saddam is unable to sell oil; without selling oil, he can't generate the revenue he needs to rebuild that military machine we destroyed. The Iranians aren't faced with that situation; they have access to the world's markets, they are selling oil, and they are using some of that revenue to regenerate their forces and expand their capabilities. For example, they're buying diesel-powered submarines and MiG-29s from the Russians.

Long term, we have to be concerned about both Iran and Iraq. The Gulf is going to be an area of vital interest to the United States for at least a hundred years. We have to remain actively involved there—supporting our friends in the region, trying to promote stability, and responding to threats whenever they arise.

***P.R.:* Could America win a campaign such as Desert Storm with the defense cuts that Bill Clinton is pushing?**

Cheney: The cuts proposed by President Clinton are dangerous. Could we win another Desert Storm after them? I think so, but I don't think we could do it as effectively as we did in 1990 and 1991. The cost and casualties would be higher. It would take us longer to respond to a crisis and to finish the job.

We saw in 1980 the problems that arise when the U.S. doesn't maintain ready forces in peacetime. Remember Desert One, when we weren't able to mount a successful rescue operation to get our hostages out of the embassy in Teheran: we had equipment failures, we had an accident when two aircraft collided in the desert, eight people were killed, and the whole mission had to be aborted. Now compare this with Desert Shield in 1990. From the time the president said, "Go," it took us only 14 hours to send the First Tactical Fighter Wing from Langley Air Force Base in Virginia to Saudi Arabia. Ten years before, in 1980, that same unit flunked its operational readiness exam; 47 out of the 72 aircraft were grounded for lack of spare parts.

That's what will happen again if the Clinton defense cuts are ultimately approved. We'll end up with a force that's not ready to deploy on short notice, that's not capable of carrying out the missions we assign it. It's the kind of force that would cause us to suffer much higher casualties than necessary in the next conflict because we didn't maintain adequate peacetime capability. That's the real danger of the Clinton budget cuts. For example, freezing the pay of the troops, as President Clinton has proposed, will ultimately have an impact on the quality of the people we can retain in the force. And as the quality of the people goes down, so will their performance in the next war.

***P.R.:* You have argued that America demobilized too hastily after victory in World War I and World War II. What difference does the end of the Cold War make for America's defense requirements? Which threats to our security are mostly over? Which ones remain?**

Cheney: The end of the Cold War has allowed us to change our defense strategy dramatically. We have moved away from the old strategy of containment and the forces that were required to pursue that strategy. We no longer face a wartime scenario of a massive, all-out, Soviet-led Warsaw Pact attack on Western Europe of upwards of 100 divisions that would begin on short notice, would start from the inter-German border and would probably require us to use nuclear weapons to stop it. We no longer have to be prepared to fight that sort of all-out global war with the Soviets.

Consequently, we no longer need to field 10 divisions in Europe within 10 days of a decision to mobilize, or to have forward deployed nearly five divisions in Europe. The Navy can become smaller, because the Soviet navy is rusting at the docks. We've been able to take down our land-based battlefield nuclear weapons from Europe and our tactical nuclear weapons off our ships at sea and substantially reduce our strategic nuclear forces as well. All of those things are a direct result of the end of the Cold War and the actions we initiated in the Bush administration. And they've all, for the most part, been accomplished.

What we need now, as we proposed during my time in the Pentagon, is sufficient force to be able to deter or defeat an adversary who would try to dominate a region of the world that's vital to U.S. interests. The best example of that, of course, would be preventing Saddam Hussein from taking control of the Persian Gulf and the world supply of oil.

***P.R.:* What are our interests in Russia today, and how can U.S. policy promote them? Can direct financial aid from the West make much of a difference in Russia?**

Cheney: In Russia, our interests clearly lie in supporting political and economic reform efforts aimed at building a democratic society based on principles similar to our own. A democratically governed Russia is not going to be the threat to its neighbors and to the rest of the world that the old Soviet Union was. We ought to do everything we can to try to support these reform efforts, keeping in mind that there's a limit to what we can do until the Russians make some very fundamental changes themselves. Massive economic assistance is not going to be helpful, for example, unless the Russians take control of monetary policy, stabilize the ruble, and take other steps to make it possible for them to use our assistance effectively.

***P.R.:* President Clinton wants to slash the SDI budget by some 40 percent from the level President Bush recommended for fiscal year 1994. What role for missile defenses do you see in the coming decade, and do you think this can be achieved with the Clinton administration's budgets?**

Cheney: It's a big mistake to slash the SDI budget. The Clinton administration says it inherited the 1983 concept

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"I've been very nervous watching President Clinton deal with the Bosnian conflict." —Dick Cheney

of SDI, and that's just dead wrong. It inherited the 1990 concept of SDI, which was dramatically different, which was built after the end of the Cold War and put together after a dramatic change in the Soviet military posture. It specifically had been geared down so that we were focusing on limited strikes, not on a massive, all-out Soviet assault on the U.S. with ballistic missiles. That had already been done, before the Clinton people ever arrived on the scene.

The Clinton administration is now taking steps that may cripple the program. One of our biggest needs as a nation is to be able to defend ourselves and our forces forward-deployed overseas against ballistic missiles. SDI is the program to do that. It was Ronald Reagan's dream, and I think he was correct when he gave it a major push back in 1983. I think we have the capacity to solve all the problems connected with it and to actually deploy strategic defenses. And at a time when the problem of proliferation of weapons of mass destruction and ballistic missiles is growing around the world, it's not a time for us to scale back our efforts to develop that capability.

SDI can also play a significant role in discouraging proliferation. A number of our major allies have the capacity to build ballistic missiles and nuclear weapons. One way to discourage that is to make sure they understand that we have the capacity to defend against missile attack, and to extend that defense to them, so there's no need for them to add to the proliferation problem by developing their own nuclear weapons.

Some of the most exciting research and development in the country in recent years has been in SDI. The potential commercial spinoffs from there have been significant.

P.R.: **Do you agree with the Republican platform's opposition to women in combat?**

Cheney: Well, let me state my own position. I think that the ban on women serving in infantry, armor, and artillery units is appropriate and ought to stay in place. The physical requirements are sufficiently difficult, and the physical differences between men and women are sufficiently great, that the capabilities of these units would be degraded if women were incorporated into them.

I think that some billets in the Air Force can be opened up, though there shouldn't be any relaxation of the physical standards. Winning a slot as a fighter pilot in the Air Force is extremely competitive, and ought to remain so in accordance with the same standards that have always been there. If some women can successfully compete for those positions, I wouldn't have any objection to their filling those billets. There shouldn't be any quota for how many women will have assignments there.

In all of these cases, the appropriate standard is: How will a proposed policy affect the ability of the unit to

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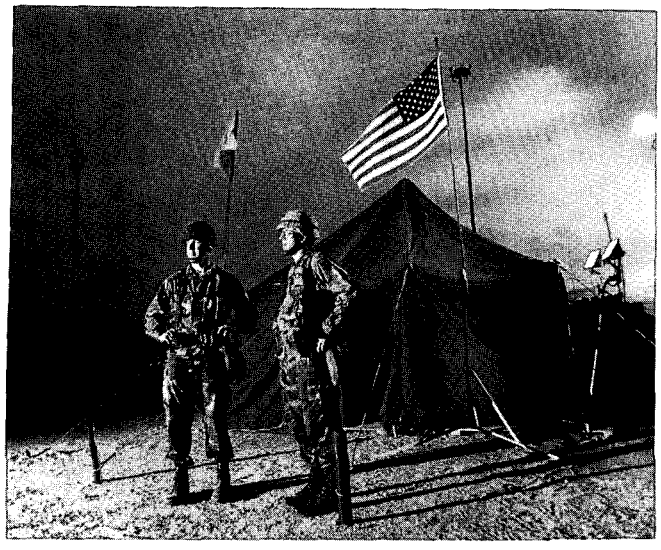

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"The Clinton administration is seriously undermining the quality and morale of our armed forces."

function in combat? We should not include women or anyone else if their presence would hurt performance in combat.

***P.R.:* You were first elected to Congress in 1978, with Jimmy Carter in the White House and the Democrats in control of both Houses of Congress. Within two years, liberalism and the Democratic Party went down to crushing defeat in the Reagan landslide. In preparing for future victories, can the GOP draw any lessons from the experience of Republicans in Congress in the late 1970s?**

Cheney: Two of my most enjoyable years in public life were those first two years in Congress. Maybe it was because I was a brand new member of the House, and I was excited about being elected for the first time. But it also was because Republicans were able to draw some very stark contrasts between what we stood for and what the Democrats stood for in the Carter years. We used the period out of power in the late '70s to get our own act together, which we needed to do. We went back to Republican basics: lower taxes, smaller government, free enterprise, a strong national defense. This laid the groundwork for that tremendous Reagan victory of 1980, when we also captured control of the Senate and significantly enhanced our numbers in the House.

***P.R.:* What are the most important issues for Republicans to emphasize in the congressional elections of 1994 and the presidential and congressional elections of 1996?**

Cheney: We should go back to the issues that have worked well in the past. The American people want greater confidence in their government, which they generally believe hasn't been working very effectively. This gives Republicans a tremendous opportunity to emphasize our traditional view that government is best when it governs least. We need to reaffirm our fundamental commitment to freedom and democracy and individual liberty and the genius of the free-enterprise system. We have to aggressively take on the Clinton administration over tax policy. By advocating massive tax increases, the Clintons have done us the great favor of giving us back the tax issue.

National security and defense may conceivably be important issues, too. This will depend to some extent on external events. But certainly we ought to run aggressively on the platform that America is the world's only superpower, and we have to maintain our military strength. The Clinton program does not do that. The Clinton administration is seriously undermining the quality and morale of our armed forces. There is now the distinct possibility that the next time we have to use the force, the military won't be able to perform as it should because of the way it's being treated under the Clinton administration.

***P.R.:* What priority do you give to each of these objectives in budget policy: preventing tax increases, sharply cutting the deficit, cutting capital-gains taxes, providing tax relief for families with children, and reducing federal spending as a proportion of national income?**

Cheney: The first obligation of the federal government is to maintain the nation's security. With the end of the Cold War, we can do this with fewer resources than were necessary before. We would have been able to do it under the Bush program for about 3.5 percent of GNP, which is less as a percentage of GNP than we've had to spend on defense since before Pearl Harbor. This is more than President Clinton wants to spend, but it's much less than the 6 percent of GNP we spent at the height of the Cold War.

The second most important goal in budget policy is to promote economic growth. Almost every other goal—reducing the deficit, promoting opportunity, maintaining the peace—ultimately depends on whether we have sustained economic growth of the kind that we had during the Reagan years. If economic growth is our foremost economic objective, then it is important to work for a capital-gains tax cut. Reducing the cost of capital will expand investment and job creation and opportunity. Promoting economic growth also requires not allowing government to grow relative to the total size of the economy.

I would cancel all of the Clinton tax increases. Raising taxes flies directly in the face of our efforts to expand the economy. I can't think of a single instance in history when a major tax increase has ever led to economic prosperity. So I would hold the line on taxes.

With respect to deficit reduction, the emphasis has to be on spending cuts. You can cut the size of government, cut the number of people employed in the federal government, and cut the amount of money government spends. I know, because we did it in the Defense Department in the four years I was there: we closed some 800 bases and installations worldwide, and eliminated 400,000 positions out of the Department of Defense. We could similarly cut domestic spending if we went at it aggressively. We could make progress on the deficit simply by cancelling the $152-billion increase in new domestic spending that Clinton wants.

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***P.R.:* Conventional wisdom has it that Republicans lost the "family values" debate in 1992. Is this a battle worth fighting? And if so, what are the most important family and cultural issues for Republicans to emphasize?**

Cheney: Values are important. They are an inherent part of the debate about where we want to take the country in the years ahead. But it's important to handle values in a way that does not convey an attitude of intolerance. The Democrats are likely to do everything they can to portray Republicans as intolerant of others, and when that happens, we lose the edge in the debate, as we did in '92. We have to find ways to talk about values that are inclusive, and are seen as generous and enlightening. We cannot let ourselves be perceived as having a message of hate or lack of respect for those who differ with our views.

***P.R.:* Ross Perot won 26 percent of the vote in Wyoming, with much of it coming from Republicans and GOP-leaning independents. Why were so many people in Wyoming attracted to Perot, and what must Republicans do to win back their confidence?**

Cheney: I'm still puzzled by the Perot vote. I'm not sure how much of it was based on an attraction to Mr. Perot, and how much was a protest vote based on unhappiness with President Bush and then-Governor Clinton. But Mr. Perot was saying some things that were very appealing to people of Wyoming—my voters, my constituents; they elected me six times.

The people in Wyoming are frustrated with the size and cost of government. They sense that it doesn't work very well. Mr. Perot was able to capture a lot of their frustration with his rhetoric. I'm not certain he could have done anything about it if he had gotten elected. But he was able to articulate a view with wide appeal in a state like Wyoming, where we look askance at big government, believe deeply in a low-tax philosophy, and think that the deficit is a serious problem that we need to get under control.

Republicans will win back Perot voters if we can persuade the public that we offer the best prospect of reducing the size of government in a way consistent with the conservative view of the world held by most Americans. It's a matter of establishing our own credibility and our commitment to those principles that made us the majority throughout the 1980s.

***P.R.:* Black Americans have found more advancement opportunities in the military than in any other sector of society. What lessons do you see here for domestic policy in terms of providing greater opportunities for blacks and other minorities?**

Cheney: I don't think there's any question that the military has offered great opportunities for blacks and other minorities, in terms of upward mobility. The military runs on merit. You have to meet very clear standards in order to advance, and you are judged not on the color of your skin, but on how well you meet

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"The American people want greater confidence in their government, which they generally believe hasn't been working very effectively."

those standards. I wish the rest of the society would work in the same way; I can't say that it does. Over the years I think the military has benefited from the perception that it offers equal opportunities to minorities in a society where there are still vestiges of discrimination. The military has become a magnet for those who want to advance themselves, and so it has been able to attract the best and the brightest.

***P.R.:* You worked as a price controller for President Richard Nixon.**

Cheney: A terrible experience.

***P.R.:* What did this experience teach you about price controls, say, in health care?**

Cheney: Early in my career—1971 to early '73—I worked on the Cost of Living Council, and during much of that period I was assistant director for operations. I oversaw 3,000 IRS agents in their efforts to enforce wage-price controls. It demonstrated conclusively, if any demonstration was needed, the foolishness of a central bureaucracy in Washington trying to control something as complex as the American economy, in terms of setting wages and prices and profit margins for every enterprise and man and woman and child in the country. Proposing wage and price controls was one of President Nixon's

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biggest mistakes. And the notion now that the Clintons are talking about—some system of price controls as an integral part of their health-reform package—is a grave cause for concern. Nobody's smart enough to write the regulations to do, by fiat, what we're able to do by letting the marketplace work.

One of the problems with wage and price controls is that economic decisions suddenly become political decisions. People perceive that policy-makers are making decisions about wages and prices, so they rush in to lobby the policy-makers. Then the politicians get involved. Imposing controls politicizes what should be a non-political or economic process—the allocation of resources in the economy. One of the worst consequences is that the entrepreneur spends all of his time trying to figure out *how to manipulate the controls in order to make a profit* instead of trying to figure out how to build a better mousetrap and outcompete his competitors.

Let me just comment on the whole health-care debate.

Nobody's seen the Clintons' final proposal, but I don't buy the argument that we have the world's worst health-care system. We have the world's best health-care system. It's not perfect, but it is a tremendous success story for this country.

The medical profession and drug industry have dramatically improved the lives of all of us. Go back 30 and 40 years, when we had no effective medication for controlling blood pressure or lowering cholesterol levels, and no effective vaccine against polio. Now we do, plus much, much more. America's pharmaceuticals industry is one of the most dynamic, technology-driven, industrial sectors anyplace in the world, and the Clintons have gone out of their way to trash it.

We also keep hearing about the 37 million Americans who don't have health insurance. Not having health insurance, though, doesn't mean you don't get health care. It means you go to the emergency room, and the rest of us pay for it through our own insurance rates. I remember a time when I didn't have any health insurance, either. I couldn't afford it, but I also was young enough so that I didn't think that I really needed it.

We need to look at what the health care system currently is able to provide before we tear it down. I'm worried that we're embarked upon a course where the 90 percent of the system that works very well is going to be destroyed in order to do something supposedly to fix the 10 percent that needs to be fixed. And I don't hear anybody in the administration arguing the merits of the existing system, pointing out its enormous successes, pointing out that, for the vast majority of Americans, we have a higher standard of health care than any other society in the world.

P.R.: **About half the surface area, and three-quarters of the energy and mineral resources, of Wyoming are owned by the federal government. Are there ways to strengthen the economy of Wyoming, without hurting environmental protection, by giving commercial interests greater access to these resources?**

Cheney: My frustration as Wyoming's lone congressman was that my friends in New York and California thought they knew better than we did about how we ought to manage our affairs in the state, when in fact we'd done a far better job than they had in preserving our environmental resources and quality of life. That's why so many of them keep trying to buy ranches in Wyoming.

An awful lot of the appeal of Wyoming depends on preserving its tremendous environmental assets. I was pleased as congressman to sponsor legislation that added almost a million additional acres to wilderness. It was good legislation, and those lands ought to be protected. But we also have to develop prudently those resources that are necessary for economic growth and development. And I think we've done that pretty well in Wyoming.

Wyoming is the nation's leading coal producer now, and most of that coal comes from public lands. It's in everybody's interest that this coal be mined. It's low-sulfur, so it contributes to cleaning up the environment, and it produces jobs, revenue, and energy. And we're able to mine it in a safe and sound manner from an environmental standpoint—we have tough reclamation standards, and we reclaim the land almost as soon as it's mined. It's a mistake to treat environmental protection and economic development as a zero-sum game. The way we mine Wyoming coal is good for both the economy and the environment.

P.R.: **More generally, how would you lower the costs of environmental regulation without hurting environmental quality?**

Cheney: A significant portion of the regulatory cost comes from trying to get that last 2 or 3 percent of improvement in the environment, so we might be able to get some savings there. We should also look for ways to let the marketplace provide incentives for people who want to do the right thing.

I've always been attracted to the idea of allowing people to buy and sell emission credits. This has been started in the 1990 Clean Air Act. If you let the marketplace work, people will be amazingly creative in finding ways to make changes that are environmentally sound and, at the same time, economically sustainable and supportable. For this to work, government needs to resist the temptation to spell out exactly or precisely the manner in which the cleanup needs to be achieved.

P.R.: **Who are your heroes?**

Cheney: I'd start with my parents. They have embodied the old-fashioned virtues of hard work and deep religious convictions and a fundamental faith in America. They have dedicated themselves to doing everything they can to create opportunities for their children, to pass on their inheritance to their children and grandchildren in better shape than they found it. They have never been flashy, but have lived courageously. ☎

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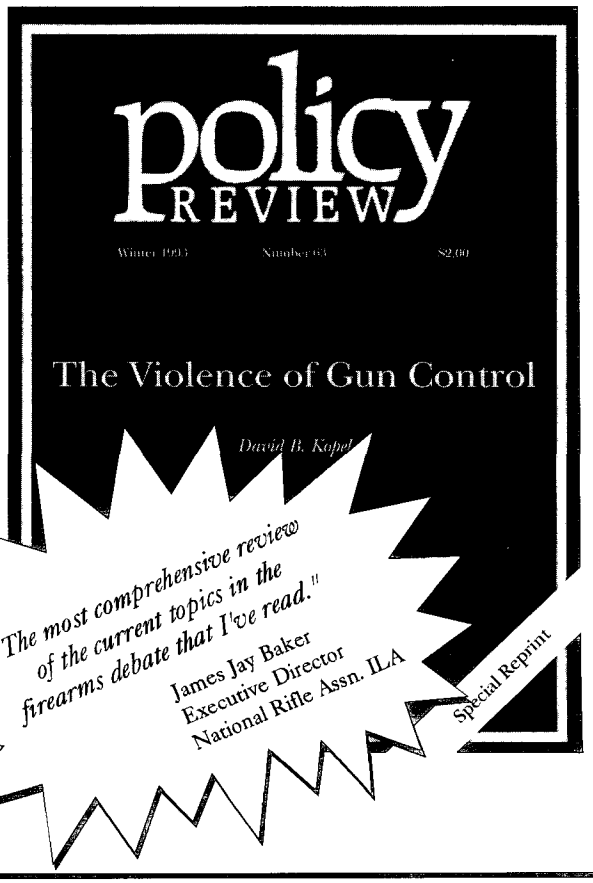
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On The Cutting Edge

The House GOP Alternative to Clinton's Budget

John R. Kasich

On March 18, 1993, 132 Republicans and three Democrats did something unusual for members of Congress: they voted to shrink the size of the government.

The vote was for a budget resolution, offered on the floor of the House of Representatives by Republicans on the House Budget Committee, to reduce federal spending by $430 billion over five years. This GOP budget achieved the same amount of deficit reduction promised by President Clinton's budget. But unlike the president's plan, the Republican budget achieved all of its savings through spending restraint. It did not raise any taxes and did not disturb the government's Social Security contract with the American people.

Many Republicans initially believed it was a mistake to put forth such a budget of their own. However, as the new ranking Republican on the House Budget Committee, I believed it was absolutely necessary for the GOP to develop a bold, serious budget alternative to the president's economic plan. My GOP Budget Committee colleagues and I convinced most members of our party in the House that a detailed budget was essential in distinguishing the Republicans' intent to control the growth of the federal government from the Democrats' desire to expand it.

"No Hot Air, Show Me Where"

When President Clinton presented his budget strategy on February 17, in what he called his "Vision of Change for America," he asked critics of his plan to be as specific and thorough as he was in developing their alternatives, and precisely identify where they would allocate resources differently. His demand: "No hot air, show me where." Leon Panetta, the new director of the Office of Management and Budget (OMB), repeated the challenge in testimony to the House Budget Committee.

Committee Republicans already had decided that any alternative they produced would be substantive and specific—it was not enough to call for a spending freeze or spending "caps." Such mechanisms only determine limits on aggregate spending amounts; they do not face up to the kinds of program changes needed to achieve the savings. They also ignore the different impact that the same level of spending cuts will have on individual programs and departments.

Control of federal dollars can only come by confronting particular programs line by line. Republicans needed to show precisely how and where they would achieve the savings they claimed.

A Clinton Trap?

Republicans who were reluctant to go forward with an alternative had understandable concerns. They saw the Clinton challenge as a trap. A GOP budget alternative would draw attention away from the Clinton budget and its numerous flaws, while asking Republican members to support spending cuts that could be unpopular with many constituents. It could draw the opposition of various interest groups, focusing attention on what they disliked in the Republican plan and away from everything that was wrong with the Clinton plan.

Despite these hazards, Budget Committee Republicans were convinced that, without a credible alternative to the president's budget, Republicans would come off as petty naysayers whose criticisms would not be taken seriously. Even more important was the future impact of such an approach. If Republican policies were to succeed in the long run, they would have to be formulated, explained, and advanced at every opportunity. If Republicans wanted to govern again, they had to show they knew what role the federal government should play in the life of the nation and that process had to start now, with the budget resolution.

The zeal and commitment of the committee's Republicans became apparent early. They quickly agreed on certain demanding criteria for their budget:

Credibility. Every spending reduction, every program termination, every government reform had to be based on sound and defensible analysis. There could be no gimmicks.

Specifics. The Republican budget would need to be thorough and specific—as much as the president's plan.

Political viability. The budget had to be one that a

John R. Kasich, *a sixth-term Republican, represents the 12th district of Ohio and is ranking minority member of the House Budget Committee.*

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large majority of Republicans could support. A program that received no more than, say, two dozen votes would not represent a realistic blueprint for governing behind which Americans could rally.

Social Security Off Limits

Several other substantive criteria were established. First, and most important, the Republican plan would contain no tax increases. One of the most fundamental convictions of Budget Committee Republicans is that chronic budget deficits are the result of excessive government spending, not inadequate tax revenues. The Republican budget resolution needed to reassert this point.

The president already had reversed his campaign promise to cut middle-class taxes. The budget plan he unveiled in February contained more than $350 billion in tax increases, many of them imposed on middle-income earners. These included taxes on energy, gasoline, and on the Social Security benefits of middle-income senior citizens. These taxes, along with the many others the president proposed, offered Republicans a clear opportunity to demonstrate the differences between the two political parties: We would reduce the budget deficit without raising any taxes.

President Clinton proposed to raise taxes on two kinds of people: people who are wealthy and people who breathe.

Second, Social Security was off limits. Republicans believe that Social Security represents a fundamental agreement between the Federal Government and the American people—an agreement that must be preserved. Once Mr. Clinton raided Social Security benefits by expanding the taxable portion of these benefits and calling the added taxes a spending cut, he presented a clear opportunity for a distinction between Democratic and Republican strategies: Republicans would achieve their deficit reduction without cutting benefits that American senior citizens have come to consider a sacred trust.

Third, prudence was essential in the defense arena. The president, in his budget, proposed roughly $112 billion in defense spending cuts over five years. This was double the amount of defense cuts he had proposed during his campaign. Republicans acknowledged that the world had changed with the end of the Cold War. This did not mean, however, that the United States and its allies were now free of security threats. Therefore, the Republican budget would adhere to the figure on which Mr. Clinton had campaigned—cutting no more than $60 billion from defense over five years. We didn't outline in detail where our $60 billion in defense cuts would come from. Indeed, we might have lost some coalition members if we had to identify specific weapons systems to be eliminated or specific bases to be closed. We were as specific here as the president was.

Wide Latitude for Working Groups

To develop a comprehensive plan, Republican committee members were divided into several working groups: national security, economic growth/budget process, health care reform, human empowerment, physical capital, natural resources and science, and government management. This approach allowed us to distribute the work load and capitalize on the interests and leadership talents of individual committee members. For example, Alex McMillan of North Carolina has spent years examining the alarming growth of spending in Medicare and Medicaid, the government's two major health programs, and is the third-ranking Republican on the Energy and Commerce Subcommittee on Health and the Environment, which handles both programs. He handled our working group on health care.

Another example was Lamar Smith of Texas, who for several years has been pushing legislation to cut government "overhead" spending on items such as travel, printing, and supplies. He led the working group on government management.

Jim Kolbe of Arizona has long been a strong voice on the importance of restraining federal entitlement programs, which are driving spending and the deficit. He was put in charge of the working group on what we called human empowerment.

Olympia Snowe of Maine brought expertise on foreign aid programs from her post on the Foreign Affairs Committee. She joined with Christopher Shays of Connecticut, who has a deep personal interest in defense issues through his work on the Government Operations Subcommittee on Legislation and National Security, in fashioning our national security proposals.

Committee members had only two-and-a-half months to develop a complete budget. Working group sessions were frequent, intense, and productive. Members vigorously debated each one of dozens of proposals for reforming the government and controlling its costs. Staff members often worked into the night and through the weekends compiling the working groups' decisions.

Many Republicans initially believed it was a mistake to put forth a detailed budget of our own.

Members also consulted at length with colleagues on other committees whose support would be needed later.

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The Republican Budget plan would achieve savings with cuts throughout the federal budget, not just in defense. In contrast, President Clinton's only cuts were in defense.

For instance, Bob Walker of Pennsylvania, the Ranking Republican on the Science, Space, and Technology Committee, worked closely with our committee members to shape a series of spending reductions that could win the support of Republicans on his committee. Among these was a recommendation to cancel the NASA program for developing an advanced solid rocket motor.

Consultations between Budget Committee Republicans and their fellow GOP members in the House contributed to building a coalition for our budget in two basic ways. First, each of the 17 committee members was reaching out to other colleagues with whom he or she had contact. Second, if non-committee members made recommendations that we followed, they then would have a stake in the product that emerged because they had contributed to it.

The working groups were given considerable latitude in developing criteria and spending goals tailored to their programs. Working groups were not given specific spending reduction targets they had to meet; they were encouraged simply to seek out reasonable and significant savings that could win broad public support. Furthermore, we were not just concerned with numbers. We wanted to develop government reforms that actually enhanced the effectiveness and efficiency of government, while at the same time saving money.

Facing Political Realities

Our efforts culminated in a five-and-a-half hour meeting of all the committee's Republicans on the evening of March 2. Every proposal developed by the working groups was debated, line by line. Many were endorsed without change. Some were altered and refined. By the end of the evening, the members had reached an agreement. The plan would reduce the deficit by $430 billion over five years without raising taxes or touching Social Security. It would ask most Americans to accept a little more responsibility for their own lives, rather than ceding it to the government, but it would impose no devastating sacrifice on anyone.

Some early recommendations were altered in the process. For example, the working group dealing with natural resources recommended terminating funds for the superconducting supercollider. But the termination would make it virtually impossible for Texas Republicans to support our plan, so the recommendation was excluded from our final proposal. Similarly, an original working group proposal called for terminating the Economic Development Administration (EDA) and placing a moratorium on filling the Strategic Petroleum Reserve (SPR). Some Republicans could not accept both, so we struck a compromise: the EDA would be preserved, but the refilling of the SPR would be reduced by half. All committee Republicans accepted this agreement.

Members of the empowerment group were troubled by the large expense incurred supporting programs for veterans—about $35 billion a year and growing—but acknowledged the larger political question of cutting them too deeply. Veterans are a natural Republican constituency; they tend to be relatively conservative on budget issues in general. Group members therefore sought modest restraints in this area.

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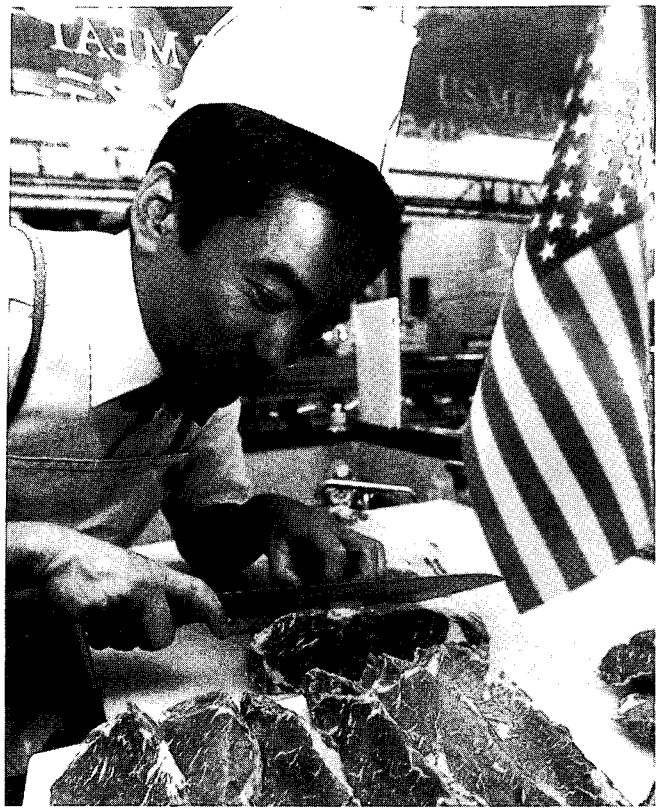

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By trimming the fat and waste from some government programs, our committee was able to find reasonable and significant savings that could win broad support.

The working group dealing with health programs recognized the serious spending problem associated with Medicare. Specifically, the program's outlays are projected to grow from $130 billion in 1992 to $389 billion in 2002 if no policy changes are made. To strike a balance among what was possible in terms of budgetary goals, the need to maintain broad-based support for the Republican budget package, and the desire to protect the interests of senior citizens, the working group recommended $65 billion in Medicare savings over five years. Our plan had less net cost to the elderly than that of the Democrats, which will cost seniors about $80 billion over five years through increased Social Security taxes and Medicare charges.

We also wanted to ensure that our cuts could not be challenged as unrealistic. We included nearly $49 billion in overhead savings over five years, a figure that may very well be understated. But by being conservative with our numbers (as well as our philosophy), we avoided charges that our proposals were not serious.

Unchanged Cuts

Recommendations that went unchanged included a moratorium on federal land purchases and the elimination of the subsidy for improvement of Amtrak's Northeast Corridor.

Other key recommendations of our plan, an 84-page document titled *Cutting Spending First,* included:

• **WIC-PLUS.** This reform combined the assistance for Women, Infants, and Children with other food and nutrition programs into a consolidated program funded through block grants to the states. Twelve percent of the program's fund would be guaranteed for WIC, constituting full funding, but states were given flexibility to allow funds to go to areas of greatest program need.

• **Medicaid.** The Republican plan saved $10 billion over five years by making a fundamental change in the way Medicaid works. Medicaid recipients would be placed in managed-care systems, similar to what already is working successfully in Arizona.

• **Medicare.** Members agreed it is good public policy to require wealthy individuals, those with incomes above $100,000 annually, to absorb a greater share for both their Medicare hospitalization coverage and their Medicare supplemental medical insurance. This policy would reduce the amount of subsidy these higher-income people would receive from other taxpayers. The reform saved $6 billion over five years.

• **Foreign Aid**. The Republican plan proposed far-reaching changes that would have saved over $13.5 billion in the next five years. It cut funding for the Agency for International Development (AID); a presidential commission has already found that AID has too many objectives and supports too many programs. It terminated aid to 33 middle-income countries and to those low-income countries where U.S. assistance has shown no results. It also advocated program reforms to assure that U.S. aid did not become counter-productive in countries we were trying to help.

• **Federal Employees' Retirement.** The committee members also determined that the current minimum retirement age of 55 for civilian federal employees is unrealistically low. Gradually increasing it to 62 would bring it more in line with the retirement age in the private sector. In addition, the cost-of-living-adjustment for military retirees would be deferred until the retirees reached age 62. (They now receive the COLA from the day they retire, even if they have as many as 20 working years left.) These reforms saved nearly $11 billion over five years.

Veterans are a natural Republican constituency. We had to seek modest restraints in their programs.

Sharp Partisan Contrast

By the time our plan was ready for public release, the substantive differences between the Republican and Democratic strategies were clear.

The president's plan, which became the framework for the Democrats' congressional budget resolution, contained the highest tax increase in American history including expanded taxes on Social Security benefits—with almost no effort to restrain spending. Although the administration had promised to pursue a deficit-reduc-

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Reducing the Medicare subsidy for wealthy older Americans could save $6 billion over five years.

tion ratio of $2 in spending cuts to every $1 in higher taxes, the first year of the Clinton budget called for $36 in tax increases for every $1.50 of spending restraint. Even over the full five years, higher taxes would outpace lower spending by two-to-one—precisely the reverse of the president's initial promises.

The president's campaign promise of cutting middle-class taxes also was reversed. Even his claim that the plan would impose 70 percent of its higher taxes on people making more than $100,000 annually turned out to be false. Actually, a large portion of his tax increases reached down to income levels as low as $30,000 a year. His most egregious tax, the so-called BTU tax, which fortunately has been dropped, would have taxed everyone's energy use. To put it simply, the president proposed to raise taxes on two kinds of people: people who are wealthy and people who breathe.

His choice of spending restraint was remarkably one-sided as well. Of his net spending reductions, which totalled about $150 billion, nearly $112 billion were designated to come from national defense. These cuts would be in addition to the 25-percent defense reduction already required by the 1990 budget agreement. Nearly $60 billion of the president's deficit reduction would come from his estimates of savings in future interest on the national debt.

At the same time, the president proposed $180 billion in new domestic spending initiatives, and in an Orwellian twist called them "investments." In fact, the president's plan actually increases domestic spending by $25 billion over five years.

In other words, the "contributions" to Mr. Clinton's deficit reduction would come from America's armed services and American taxpayers; the favorite domestic programs of Democrat constituencies would continue to grow while everyone else was making sacrifices for the president's "Vision of Change."

Contrasting the Republican plan was fairly simple. The Republican plan would achieve savings throughout the federal budget, not just in defense. It would achieve the same level of deficit reduction as the president claimed, and would do so without raising taxes and without touching Social Security. The Republican budget expressed the fundamental belief that reducing the deficit depended on restraining the growth of government outlays, not raising taxes.

Support from the Press

We now had a plan that sharply contrasted with that of the president and his fellow Democrats. Yet there were still questions among Republicans outside the Budget Committee about what to do next.

Discussions with the Republican leadership were inconclusive. Most of the leadership team liked the plan; Republican Whip Newt Gingrich had supported the project from the beginning, and Republican Leader Bob Michel pledged to join Budget Committee Republicans on what he called a death march, if necessary, to support our plan on the House floor. But many Republicans were hesitant to present it publicly. Some also were concerned about the timing: would it be best to release our alternative in the committee or to hold back until the budget came up for debate on the House floor? Again, the concerns were understandable; we Republicans were in an unfamiliar role of opposing the White House, so there was uncertainty about how best to proceed.

Nevertheless, the Republican Budget Committee members were determined to go forward. We held a

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news conference the evening before the markup session. The next day, we offered the full package as an alternative to the Democrat budget.

The time, effort, and risks involved in describing our more than 160 budget recommendations proved worthwhile. News media throughout the country applauded our effort, even if some disagreed with some of its specifics. The *New York Times* wrote in an editorial:

> But when the House Budget Committee Republican members laid out 80 pages of detail for the committee yesterday, they were brushed aside with barely a nod. Their effort deserved better ... [their] plan isn't flawless, but it calls Mr. Clinton's bluff and deserves a serious airing.... The Republicans have made a good faith effort to enter the budget process this year. Their proposals deserve good faith debate.

Four days later, syndicated columnist Patrick Buchanan added: "Diamond hard, packed with specifics—real cuts and no new taxes—it represents a serious Republican alternative, a clear choice."

The comprehensive nature of our plan and the positive reaction from the press emboldened Republicans to support us. This was a large reason why our plan received 135 votes when it reached the floor (including three Democrats). The total was not enough to win passage, but it was the largest number of votes a Republican budget had received in at least five years—including four when Republicans held the White House.

In recent months, Ross Perot, who deserves considerable credit for having galvanized public opinion behind the need for deficit reduction, has applauded our effort, calling our proposal a "world-class plan." But even more important than that has been the response from the general public. My office in Washington received more than a thousand individual requests for copies of our plan in just two months.

Our committee will pursue a similar course next year, in debating the budget for fiscal year 1995. In the meantime, we will seek to incorporate our recommendations into authorizing and appropriating legislation that comes to the House floor during the course of the year. We intend to use every opportunity to highlight our differences with the Democratic Party, and to assert our convictions about the proper ways to allocate limited federal resources, reduce chronic deficits, and restore balance in budgeting and government. ☎

Photo courtesy of Rep. John Kasich

"If Republicans want to govern again, they must show they know what role the federal government should play in the life of the nation."

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Facing facts

One heartening bit of news that seems to be coming from recent discussions on the economy is that Americans now seem prepared to face the fact that the nation has a deficit problem.

The Administration has introduced its proposal to solve some of the problem, and in the days and months ahead there will be considerable debate over the economy, and how to fix it. Everybody will have an opinion, as will we.

But before the debate heats up we thought we should first take a look at some of the numbers and let you make up your own minds. The table below summarizes federal revenues and expenditures according to numbers provided by the U.S. Office of Management and Budget. The numbers—for the period 1980 to 1992—exclude the Social Security trust funds and reflect the period just before and since the great tax "cut" in 1982 we hear about so often these days. The numbers convey a very simple message.

YEAR	REVENUES*	EXPENDITURES*	DEFICIT*
1980	404	477	73
1981	469	543	74
1982	474	594	120
1983	453	661	208
1984	500	686	186
1985	548	770	222
1986	569	807	238
1987	641	810	169
1988	667	861	194
1989	727	932	205
1990	749	1028	279
1991	760	1082	322
1992	789	1129	340
INCREASE	+95%	+137%	+366%

*($ billions)

We said we'd let you make up your own minds, but anyone can see that revenues were up 95 percent while expenditures grew by 137 percent.

On the revenue side, from 1980 through 1992, personal income taxes rose by $232 billion, or 95 percent. Taxes paid by individuals making over $100,000 rose by $128 billion, or 330 percent, and in 1991 made up 35 percent of the total personal income taxes paid.† Corporate taxes grew by $35 billion, or 54 percent.

On the expenditures side, over the same period, defense expenditures rose by $164 billion, or 122 percent, health and Medicare spending grew by $154 billion, or 280 percent, and expenditures to service the federal debt rose by $168 billion, or 305 percent.

No, the problem is not revenues. The problem is spending.

Those are the facts we have to face.

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†Data from the IRS on individual tax returns available only through 1991.

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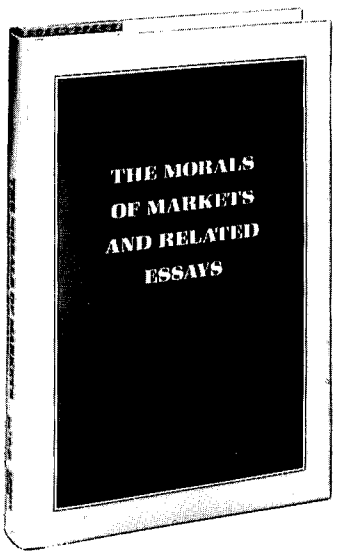

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Casting A Wider Net

Religious Conservatives Move Beyond Abortion and Homosexuality

Ralph Reed Jr.

During Adlai Stevenson's second losing campaign for the presidency in 1956, Harry Truman met with the embattled candidate to offer him some advice. Mr. Stevenson, then badly trailing Dwight Eisenhower, asked the former president what he was doing wrong. Mr. Truman led him to the window, pointed to a man walking down the street below, and said, "What you've got to do is figure out how to reach that man."

This same dilemma now faces the pro-family movement. Though blessed with talented leadership, strong grassroots support, and enormous financial resources, it has not yet completely connected its agenda with average voters. The pro-family movement still has limited appeal even among the 40 million voters who attend church frequently, identify themselves as evangelicals or orthodox Roman Catholics, and consider themselves traditionalists on cultural issues.

Developing a Broad Agenda

There are many explanations for this political disconnect. One is a basic breakdown in communication. In his incisive critique of the "family values" theme of the 1992 campaign, pollster Richard Wirthlin points out that political communication proceeds on three levels: policy, personal benefit, and values. The pro-family movement's political rhetoric has often been policy-thin and value-laden, leaving many voters tuned out.

Values are important to voters, but values alone are not enough. The successful candidate or movement must promote policies that personally benefit voters—such as tax cuts, education vouchers, higher wages, or retirement benefits. Without specific policies designed to benefit families and children, appeals to family values or America's Judeo-Christian heritage will fall on deaf ears.

A related shortcoming is that pro-family activists have built their movement around personalities rather than policies. Visible religious figures play a vital role in building grassroots membership and generating financial support. But their personal charisma, while an important asset, is no substitute for good policy.

Prominent personalities are always critical in building social movements. Labor unions were dominated in the 1940s and 1960s by controversial figures like John L. Lewis of the United Mine Workers or Jimmy Hoffa of the Teamsters. Today, however, labor organizers are more likely to be lower-profile political professionals. The same can be said of the civil-rights movement, which no longer has one dominant figure such as Martin Luther King. A similar transition will probably occur in the pro-family movement during the coming decade.

The pro-family movement in recent years has put too much emphasis on political solutions to America's social problems. Political involvement alone will not bring about cultural renewal: it is also important for the faith community to feed the hungry, teach the illiterate, provide loving care for unwed mothers, bring together families, and reawaken the spiritual life of criminals. These require cultural institutions more than election-day mobilization.

The most urgent challenge for pro-family conservatives is to develop a broader issues agenda. The pro-family movement has limited its effectiveness by concentrating disproportionately on issues such as abortion and homosexuality. These are vital moral issues, and must remain an important part of the message. To win at the ballot box and in the court of public opinion, however, the pro-family movement must speak to the concerns of average voters in the areas of taxes, crime, government waste, health care, and financial security.

Attracting a Majority of Voters

The issues of abortion and gay rights have been important in attracting activists and building coalitions. When tactics become ends in themselves, however, social movements falter. Abolitionists spent decades in the early 19th century petitioning Congress in vain for anti-slavery laws before expanding their focus to the free soil movement. Cesar Chavez built the United Farmworkers union in the 1960s with hunger strikes and boycotts. But as he continued the same organizational tactics, membership in his union plummeted, falling to under 20,000 by the time of his death earlier this year.

If the pro-family movement is not to suffer the same

Ralph Reed Jr. *is the executive director of the Christian Coalition.*

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AP/Wide World Photos

Cesar Chavez built the United Farmworkers of America with hunger strikes and boycotts, but as he continued these same tactics, membership plummeted.

fate, the cluster of pro-family issues must now be expanded to attract a majority of voters. Network exit polls conducted in 1992 are instructive. Only 12 percent of voters indicated that abortion was a key issue in their voting decision. Even more startling, only 22 percent of self-identified, born-again evangelicals—about 24 percent of the total electorate—listed abortion as an important voting issue. And only 16 percent of all voters listed family values as one of the most important issues in their voting behavior.

There is growing evidence that suggests that evangelicals and their Roman Catholic allies are concerned about the same issues as the broader electorate, but with a pro-family twist. Their primary interest is not to legislate against the sins of others, but to protect the health, welfare, and financial security of their own families.

In this sense, the pro-family movement and its natural constituency have passed like two ships in the night. A recent survey by the Marketing Research Institute found that, aside from the economy, the chief concern of voters who attend church four times a month was not abortion, pornography, or prayer in school, but cutting waste in government and reducing the deficit. A poll of GOP voters by Fabrizio, McLaughlin and Associates in January, 1993, also found that the issue that most united evangelicals and fiscal conservatives was the deficit.

The reason is simple. Taxes fall heaviest on middle-class families with children, who must tighten their belts and balance their checkbooks. They wonder why government cannot do the same. The furor over federal funding of the arts in 1990 and 1991 was not about censorship, but about eliminating government waste and abuse.

According to exit polls, 17 percent of self-identified evangelicals in 1992 cast their ballots for Ross Perot, only two percent less than the total electorate. Perot downplayed or avoided stating his support for taxpayer funding of abortion. The centerpiece of his campaign was deficit reduction, an issue that resonates among middle-class families.

Famine in Family Time

Family tax relief is another important issue to churchgoing voters. Members of both political parties are beginning to understand the importance of reducing the tax penalties on savings, capital formation, and jobs creation. The family, too, exemplifies Justice John Marshall's admonition that "the power to tax is the power to destroy."

In 1950 only 2 percent of the income of the average family of four in America went to pay federal income taxes. Today that figure is 24 percent. When state, local, and property taxes are included, the typical family of four spends 37 percent of its income on taxes, more than on food, clothing, housing, and recreation combined.

Higher taxes have torn at the fabric of the American family. In many families, both parents must work just to make ends meet. According to the U.S. Census Bureau, the second income generates an average of only 27 percent of total household income. Because of confiscatory tax rates, therefore, mothers and fathers often work for the sole purpose of paying for taxes, meals, wardrobe expenses, and day care.

Children are the main victims of this financial strain. As employers and the government encroach on the time and attention of parents, children are left to pick up the crumbs from the table. The result is a famine in family time. In 1965 parents spent 30 hours each week in direct, intimate interaction with their children. By 1985 that figure had fallen to only 17 hours per week, and today shows no signs of increasing.

An essential principle that should guide tax policy is that income dedicated to the care and nurturing of children is sacrosanct and should be exempt from taxation. The standard deduction for dependents today is only $2,300. However, if the standard deduction had kept pace with inflation since World War II, its value today would be approximately $8,000. No family of four in America with an income of $32,000 or less would pay federal income tax. One promising step is a bill offered by Representatives Rod Grams and Tim Hutchinson that would provide a $500 tax credit for each child and pay for it with a cap on discretionary domestic spending.

In the late 1970s, the U.S. economy labored under the twin burdens of inflation and sluggish growth. The challenge of fiscal policy at that time was to lower marginal tax rates to generate economic growth and create jobs without inflation. In the 1990s the primary objective of fiscal policy should be to make the tax code more family friendly, allowing parents to keep more income.

Health care is another issue that directly affects the family's pocketbook. It is inextricably linked to the moral health of society. Good health reflects good living; poor health in many cases betrays poor living. Yet this simple

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fact is almost entirely missing from the current policy debate over health care on Capitol Hill.

The United States spends $800 billion a year on health care, roughly 14 percent of its entire gross domestic product. As Dr. Leroy Schwartz of Health Policy International has documented, many of the most expensive items in the health care budget are directly attributable to behavioral problems. Crack babies, with intensive care costs of $63,000 per infant, cost $25 billion. Drug abuse and its associated violence cost the nation additional tens of billions of dollars.

Cancer is the second leading cause of death in the United States. Lung cancer claimed 146,000 lives last year; 90 percent of these victims were cigarette smokers. Recent figures indicate that the direct cost of lung cancer on the economy may be as high as $5 billion, with an additional $10.1 billion of indirect costs such as lost wages. America's 18 million alcoholics suffer from cirrhosis of the liver and a host of other costly ailments.

Hospital emergency rooms overflow with the victims of gang wars, drive-by shootings, and domestic quarrels. Murder, assault, and unintentional injuries run up a bill of $100 billion a year. Sexual promiscuity imposes its own terrible costs, including hepatitis, AIDS, and other sexually transmitted diseases.

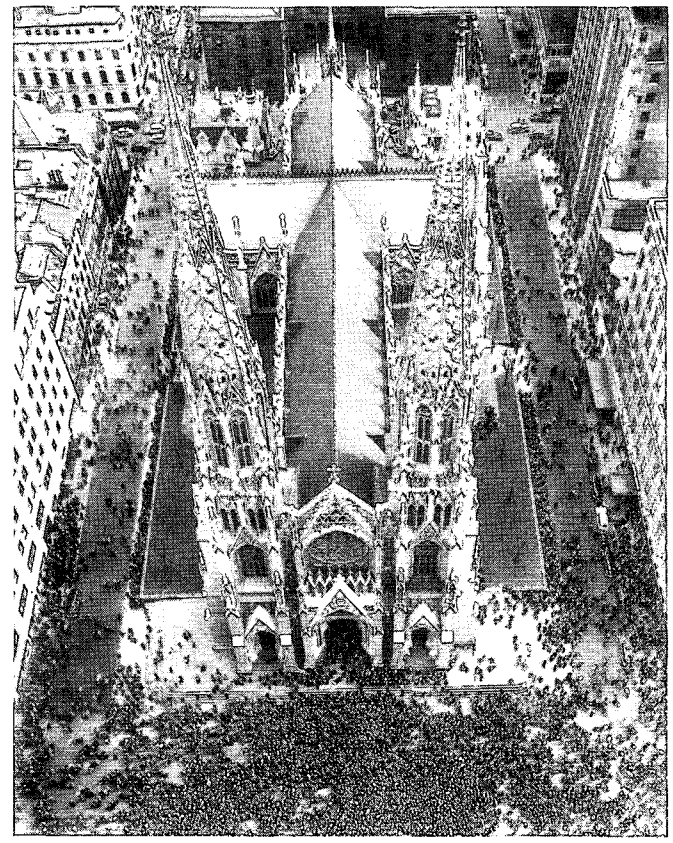
Unless these widespread social pathologies are ameliorated, there can be no genuine solution to the health care cost crisis. Poor physiological health is often a reflection of psychological disorders such as stress, loneliness, marital discord, alcoholism, sexual promiscuity, lack of exercise, or poor eating habits. The healthiest environment for persons suffering from these disorders is not a hospital, but a loving home.

Protecting the Children

The key to understanding evangelical and Roman Catholic voters is appreciating their devotion to their children. Voting behavior was once determined by geography or income. Today, the two most predictive demographic characteristics of conservative voting behavior are church attendance and having children present in the home. Survey data reveals that 47 percent of the electorate attends church twice or more a month. Seventy-six percent of churchgoing voters are married, and 66 percent have children.

Crime is a major issue to churchgoing voters because they worry about protecting their children. Parents no longer feel that their children can safely venture more than two blocks from their homes, and no wonder. While U.S. population has increased only 41 percent since 1960, violent crime has increased 560 percent. The number of crimes has increased from 4.7 million in 1965 to 14.8 million in 1990. The U.S. violent crime rate is five times that of Europe, and our incarceration rate is the highest of any major industrialized nation in the world.

The crime problem in America is largely a problem of single men raised in absentee-father households. A child growing up in a home without the father present is three times as likely to abuse alcohol or drugs, twice as likely to drop out of high school, and three times as likely to commit murder or rape. As George Gilder has pointed out in *Men and Marriage*, while single men comprise only 13 percent of the total population, they account for 40 percent of all criminal offenders and commit 90 percent of all violent crimes.



AP/Wide World Photos

Growing evidence suggests that evangelicals and Roman Catholics are concerned about the same issues as the broader electorate, but with a pro-family twist.

Many of their victims are children. In Washington state last year, prison officials executed convicted murderer Wesley Alan Dodd as death penalty opponents burned candles at a silent vigil outside the penitentiary. No one bothered to light a candle for the murder victim, four-year-old Lee Iseli. Mr. Dodd was on parole after serving just four months of a 10-year sentence for child molestation when he abducted Lee Iseli from a playground just a few blocks from his home. He took the boy to his apartment, strapped him to a bed, and spent all night repeatedly suffocating him, reviving him, and brutally molesting him. As the sun rose over this horrible scene, Wesley Dodd choked the child to death, hung his body in a closet, and went to work at his job as a shipping clerk.

Such violence will prevail as long as the two-parent family continues its decline as the primary socializing institution in society. As Daniel Patrick Moynihan argued in 1965, "from the Irish slums of the 19th century eastern seaboard to the riot-torn suburbs of Los Angeles, there is one unmistakable lesson in American history: [When] a community that allows a large number of young men to grow up in broken families ... that community asks for and gets chaos." Moynihan added that in such a society, "crime, violence, unrest, unrestrained lashing out at the whole social structure—these are not only to be expected, they are very nearly inevitable."

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Today one in five white children is born to an unmarried woman; two out of every three African-American children are born out of wedlock. This social calamity has produced gang violence, juvenile crime, and pathology among our youth that has no parallel in history. Our inner cities have become war zones. An African-American male between the ages of 18 and 35 in the District of Columbia has a greater chance of being killed than an American soldier did in Vietnam.

Liberal solutions to crime, such as rehabilitation and early release programs have failed utterly. Nor are traditional conservative policies—building more prisons, for example—an adequate answer. Since 1975 the United States has quadrupled its rate of incarceration and the prison population has soared from 250,000 to 1.3 million. Yet our streets are less safe and our neighborhoods more terrorized than ever.

The only true solution to crime is to restore the family. Young males raised in homes with male authority will emulate their fathers in marriage and procreation. Through their families, they will have a personal stake in creating a moral climate for their own children. Moreover, the penal system needs reform to allow for redemptive sentencing for non-violent criminals that allows them to work, pay back their victims, and make restitution to society.

Make Schools Safe

Education is another issue that churchgoing voters view primarily through the eyes of their children. Many observers mistakenly believe that the abortion issue gave rise to the Religious Right. In fact, the spark that ignited the modern pro-family movement was the fear of increased government regulation of church schools. When the government begins to threaten their children, evangelicals will pour into the civic arena like a flood, albeit reluctantly. The first goal of education policy should be to make schools safe. Increasing numbers of American children bring weapons to school every day. Stuffed in book bags or hidden in lockers, these weapons are turning schools into combat zones. Violence against teachers is commonplace. In Lorraine, Ohio, a female student attempted to stab her teacher to death after a dare from classmates, who promised her their lunch money if she committed the murder. The knife-wielding student was 15 years old.

In part because of the breakdown in discipline in public schools, churchgoing voters strongly support choice in education. A growing parental rights movement is gaining momentum at the grassroots level. In Chicago a group of parents recently filed suit against the city for failing to provide their children with an adequate education. In Wisconsin earlier this year, Linda Cross, a parent and schoolteacher, narrowly lost her campaign for state superintendent of schools after being outspent 10-to-1 by a union-backed candidate who opposed school choice. Although powerful teachers unions oppose the parental rights movement, citizen groups are pressing for reform. In San Antonio, Texas, the Children's Educational Opportunity Foundation, a nonprofit corporation, provides school vouchers to 934 inner city students for half their tuition. The Golden Rule Insurance Company began a similar program in 1991 in Indianapolis, Indiana. These citizen efforts will soon test their strength at the ballot box. A choice initiative will be on the ballot in California in November, and both sides have pledged to spend a total of $15 million in the campaign. School choice initiatives will also appear on other state ballots in 1994. As with the tax limitation movement and the success of proposition 13, a victory in California could spawn ballot-measure victories throughout the nation.

Coalition for Common Sense

The parental rights movement found its most dramatic expression recently in New York City. School board elections in New York have historically been sedate affairs. But the 1993 campaign read like a subplot from Tom Wolfe's *Bonfire of the Vanities*, complete with the histrionics, bombast, and larger-than-life politics unique to the Big Apple.

The controversy began with the Rainbow Curriculum, a multicultural curriculum that included instruction about the gay lifestyle to first graders. Mary Cummins, a feisty Irish grandmother and school board member in Queens, successfully resisted the imposition of this curriculum in her community district. She and other Queens school board members were then summarily fired by school Chancellor Joseph Fernandez, who later lost his own job as a result of his role in the growing controversy.

The battle spilled over into the campaign for school board seats in the city's five boroughs and 32 school districts. Parents groups and pro-family organizations distributed 500,000 nonpartisan voter guides informing voters where 540 candidates stood on a broad range of issues, including school choice and more parental involvement in curriculum decisions. The ACLU hysterically called the involvement of people of faith "the greatest civil liberties crisis" in the history of New York City. The Reverend Al Sharpton denounced the parents' efforts as "racist." This campaign of fear and intolerance failed. Over half of the 130 pro-family candidates won, and several school boards in Queens, Brooklyn, and Staten Island are controlled by parental rights advocates.

The New York City experience is important for two reasons. First, to paraphrase Frank Sinatra, if you can make it there, you can make it anywhere. Family-friendly education is as popular in the Big Apple as it is in the Bible belt. Second, it united a multi-racial, multi-ethnic, ecumenical coalition for common sense. Cardinal John O'Connor and the Roman Catholic Archdiocese cooperated with Protestant groups in the distribution of nonpartisan voter guides; civil rights leader Roy Innis joined with white and Hispanic parents in turning out the vote; and Orthodox Rabbi Shea Hecht of the National Committee for the Furtherance of Jewish Education endorsed the campaign of his Christian brethren. The pro-family movement's inroads into the African-American, Hispanic, Catholic, and Jewish communities may be the most significant development since its emergence in the late 1970s.

Reforming welfare to make it more conducive to family formation is an important element in a broad-based pro-family agenda. Just as the tax code penalizes

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The key to understanding evangelical and Roman Catholic voters is appreciating their devotion to their children.

marriage and children, so does the welfare system subsidize family breakup. Welfare reform has been put on the back burner by the Clinton Administration, but it is a top priority for many churchgoing voters.

The number of families on welfare has risen from 1.9 million in 1970 to 4.7 million today. Of all the children born in 1980, 22.2 percent of white children and 83 percent of black children will be dependent on welfare before they reach the age of 18. Because women on welfare lose their benefits if they take a job or get married, they face a strong disincentive to work, save, and form a stable marriage. Welfare dependency is stark evidence of the economic inviability of single motherhood. Because children learn what they live, intergenerational poverty is common. This should come as no surprise. The habits that welfare subsidizes and fosters are the same habits that, when inculcated in children, make it difficult to break loose from dependency.

There is a way to break the cycle: subsidize marriage and work while lowering incentives for family breakup. There are many proposals for reform: requiring welfare recipients to find a job within two years; reducing rather than eliminating benefits when a male enters the home; requiring job training or education as a condition of benefits. Probably the best immediate policy goal is to grant waivers and additional funding to states willing to experiment with welfare reform. As with the progressive reformers of the early 20th-century, pro-family activists should use the states as laboratories, and legislate at the federal level only the reforms that work.

All Things to All People

The pro-family movement will realize many of its objectives if it can begin to speak to the issues that concern the voters. The Bible admonishes to "divide your portion to seven, or even to eight, for you do not know what misfortune may occur on the earth." Diversifying one's investments applies to political capital as well as financial capital. Building a political agenda around a single issue is a risky proposition, because when progress lags on that issue, as it inevitably will, the viability of the entire movement is threatened.

The key to success for the pro-family movement is to discuss a broader issues agenda in the language of the target audience—churchgoers and families with children. In doing so, a social movement until now composed largely of white evangelicals can win natural allies among Catholics and racial minorities. The Apostle Paul said that he had become "all things to all people that I may by all means win some." His methodology made Christianity the dominant faith in the Western world within three centuries. The same technique can make the pro-family movement the most effective grassroots voice in America if properly followed. ☎

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Bush-League Unemployment

Will Clinton's Labor Policies Lower the Job Boom?

Carlos Bonilla

The American job machine finally is starting to rev up again. Employment growth stagnated at 20,000 a month in the year and a half leading up to the 1992 election. It rose to 135,000 a month in the final quarter of the Bush presidency. And the pace picked up under President Bill Clinton, as the American economy created 800,000 new jobs in the first four months of the new administration. This was almost as rapid as the 250,000 new jobs created every month in the last six years under Ronald Reagan.

Here lies the new president's central political challenge. Mr. Clinton inherited from George Bush an economy with the slowest job and GDP growth of any recovery since World War II. He will be judged by voters, as Mr. Bush was, on whether he can restore sustained job growth to the level Americans enjoyed in the 1980s.

Following the 1981–1982 recession, Americans became accustomed to robust economic growth. The economy grew by 3.9 percent in 1983, by a phenomenal 6.2 percent in 1984, and averaged 3.3 percent a year until 1990. Job growth was equally strong, with 21 million jobs created during that period. America's employment record was the envy of the world.

In July 1990 the economy slipped back into recession, beginning a contraction that continued for the next nine months. In that time, the nation's output of goods and services shrank by almost 1 percent. Employment fell by 1.2 million, and the unemployment rate reached 6.7 percent.

To the dismay of George Bush, among others, the economy failed to rebound as it had after prior recessions, and the resulting turmoil cost him the presidency. The strong job growth that had been the hallmark of Ronald Reagan's recovery during the 1980s gave way to a limping recovery that could create only 425,000 jobs in the 20 months that remained before the election. The Reagan boom created more jobs in two months than the post-recession Bush economy did in a year and a half.

Even worse, unemployment continued to rise even after the official end of the recession, peaking at 7.7 percent in June 1992, a full percentage point above the unemployment rate at the bottom of the recession, and 2.5 percentage points higher than it had been when George Bush entered the White House.

Job growth did not pick up until after the election, averaging over 130,000 a month in the final quarter, too late to help Mr. Bush.

George Bush did not lose the White House because of the recession during his administration. If this were the case, Ronald Reagan would never have been elected to a second term. Indeed, the Reagan recession was much more severe than Mr. Bush's. Whereas the Bush recession saw employment fall by 1.6 percent, it fell by more than 3 percent under Ronald Reagan, whose unemployment rate peaked at more than 9 percent. Gross domestic product fell by 2.4 percent under Mr. Reagan, compared with only 2 percent under Mr. Bush. Presidents are driven from the White House not because they preside over recessions, but because they fail to articulate and enforce a blueprint for recovery—a blueprint designed to spur economic growth and, above all, to boost employment.

The danger for President Clinton is that his health care and labor policies will reverse the upward trend we are finally seeing in employment, and that America will be forced down a path of fewer rather than more jobs. Unemployment in May 1993 was still in the Bush leagues—at 6.9 percent. And Mr. Clinton is framing the jobs-policy debate in a way that permanently will exclude many Americans from jobs for which they would otherwise be qualified.

Low Growth, Low Employment

There are three major reasons why job growth has been so much more sluggish than in the 1980s. The first is that overall economic growth has been very slow, especially considering that the economy is in a period of recovery. The second is that America continues to enjoy significant growth in productivity, a characteristic that is good for American competitiveness, but has the perverse effect of reducing employment in many sectors of the economy. The third is that labor is becoming more expensive to hire, not only because of the rising health-

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Photofest

The Holy Grail of all administrations is an economy with a large number of high-skill, high-wage jobs.

insurance costs that President Clinton so often points to, but also because of the anticipated new government-mandated employment benefits that employers worry will take away their ability to control labor costs. The biggest fear among employers today is that President Clinton's health proposal will impose enormous new burdens on employment, so that each new hire brings with it a share of the nation's health-care bill.

The "jobs recession" we hear so much about is in good measure a product of low economic growth. Two years after the official end of the recession in March of 1991, the nation's total output of goods and services was only 4.5 percent larger. This figure is less than half the economic growth in the first two years after the Reagan recession, and more typical of an economy only nine months out of recession. The problems inherent to sluggish economic growth have been compounded by the loss of 600,000 jobs due to the post-Cold War military reduction. Communities can adapt to military demobilization when it is accompanied by rapid economic growth. But without such growth, areas such as southern California, which has been hit hard by defense cutbacks, have suffered greatly.

Economic policy must therefore focus on raising the level of economic growth if we are to raise employment. President Clinton paid lip service to this goal with his so-called $16-billion "stimulus" package. One-quarter of this package consisted of extended unemployment benefits. Another quarter consisted of low-priority public works spending—parking garages in Fort Lauderdale, cemeteries in Puerto Rico, white-water canoe courses for the 1996 Olympics, and commissioning drawings of "significant" structures—projects that had not been sufficiently important or well-planned to have been funded by a budget already spending $1.5 trillion. How this package, in combination with a barrage of new taxes, was supposed to stimulate the economy is anyone's guess. The president's proposal was firmly rooted in the past, without regard to the changes that have taken place in the American economy and workplace.

Products of Technology

Over the past two decades, American manufacturing has enjoyed a spectacular boom in the productivity of labor. With 5 percent fewer employees than in 1970, American manufacturers now produce 75 percent more goods than before. This is the flip side of productivity: higher productivity means that we are able to produce more goods and services without an increase in the quantity of labor employed. Productivity growth is driven by a number of factors, but its chief motivation is to reduce costs by replacing man-hours and reducing costs. In the post-World War II era, American manufacturing, particularly in such heavy industries as steel and autos, created a labor-cost structure that eventually rendered manufacturers unable to compete even domestically.

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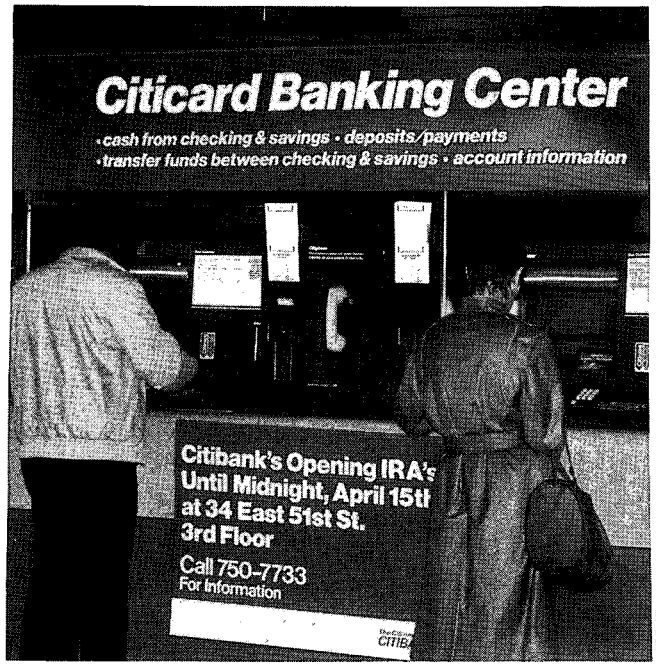
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Due to the ubiquity of automatic teller machines, half the nation's bank tellers stand to lose their jobs in the coming years.

Reducing the manufacturing labor force through the application of new technologies was essential to American industry's rebirth.

This modernization sometimes has occurred at a cost to employment, however, especially in low-growth industries. Employment in the American steel industry has fallen 45 percent over the past 30 years, while shipments have fallen by only 6 percent. Nucor, a world-class steel producer based in Charlotte, North Carolina, can produce a ton of steel with one-12th the number of man-hours it used to take using traditional methods. Nucor's steelworkers are well-paid and well-skilled, but there are not very many of them.

Productivity growth once was thought to be the exclusive domain of manufacturing. In fact, the service sector now is seeing the same replacement of human labor with products of technology. Universal product codes integrate cashiers into inventory management, and in the process making obsolete workers formerly detailed as inventory takers. The ubiquity of automatic teller machines led the Progressive Policy Institute to warn, in its book *Mandate for Change*, that half of the nation's bank tellers stand to lose their jobs in the years to come. Legions of workers once devoted to the paper trail of business transactions have found that their skills have been incorporated by information networks that span the country. Professionals working at personal computers have replaced secretaries and computer operators, while elevator operators remain only as quaint relics in the U.S. Capitol.

These technological advances have made service workers much more productive, and also made many tasks in ordinary life much more convenient. Americans now get cash when and where they need it, without having to wait in interminable bank lines. Letters no longer must be completely retyped because of a typo. The painstaking drawing of architectural blueprints can be simplified enormously through computer graphics.

Distorting the Price of Labor

Yet as inevitable as the march of technology seems to be, it is not random. Productivity increases will be sought in those sectors where costs can be reduced. But despite the opportunities that technology creates, there are human costs. For people who had planned on being draftsmen or bookkeepers or steelworkers, there are temporary but very real problems as they adjust to a changing labor market. We see some of those frictions today, as we go through an especially rapid period of technological change. The great danger of the productivity revolution is that it is distorted by government policies that are artificially raising the price of labor. President Clinton seems to want to give workers in service industries the same wage and benefits packages that exist in manufacturing. Lamenting the loss of highly paid manufacturing jobs, Mr. Clinton and his colleagues now are intent on restructuring the service sector in the image of manufacturing. The result, almost assuredly, will be fewer, higher-paying jobs in services as productivity advances take the form of labor-saving technology.

Well-intentioned policies already have had a pronounced effect on the cost of labor. Social Security and Medicare already claim 15.3 percent of most payroll dollars, up from 12.3 percent in 1980. Federal unemployment compensation adds slightly under 1 percent, with the states adding another 2 percent on average. Additional, and unpredictable, costs have arisen from the Americans with Disabilities Act, as well as state laws requiring advanced notice of plant closings and newly enacted family-leave legislation that, for now, requires that employers provide additional unpaid leave. These policies are intended to help employees, but they also raise the cost of providing a job. Many of these costs

To create good jobs means that we must allow job creation at all levels of American society.

ultimately are passed on to workers, either in the form of lower wages or in the loss of employment.

To these already existing costs, the Clinton administration is adding enormous potential new ones. Uncertainties about labor costs under President Clinton are so great that many employers are deferring hiring decisions until they better understand the administration's intent. Overtime for factory workers, at an average of 4.3 hours per week, is at the highest level ever recorded. The use of temporary help in service industries is expanding rapidly. Growing numbers of employers have concluded that it is cheaper to pay overtime or bring on temporary help than to incur the

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UPI/Bettmann

Minimum wage, entry-level jobs are still an important training ground for America's workforce.

uncertain liability of hiring additional full-time staff.

The largest of these uncertainties is the fear that employers will be required to provide health-care benefits for their workers. The president's health-care package will affect directly a sector of the economy that itself accounts for 14 percent of gross domestic product, and indirectly will affect all other sectors of the economy. Its impact will be felt the hardest in the service sector, where a majority of the economy's uninsured workers are found. Regardless of whether health-care reform lives up to its promised goal of controlling costs, it will raise employment costs in this sector markedly, and therefore depress employment.

63-Percent Tax Rate

Currently there are about 39 million uninsured Americans, 22 million of whom have some connection to the workforce, either as workers or their dependents. The administration is widely expected to announce that employers must offer health insurance to all workers, and shoulder a substantial portion of the costs for insuring lower-income workers and their dependents. The cost of these requirements easily could exceed $40 billion, a dramatic increase in labor costs.

The average cost for employer-provided health insurance is more than $4,200 for an individual with family coverage. Requiring that employers provide and pay for health insurance for low-wage workers is equivalent to raising the payroll-tax rate on a minimum-wage job to 63 percent (including existing payroll-tax rates). Such a mandate would affect directly the employability of at least 18 million workers, 4.7 of whom are working at or below the minimum wage, as well as another 13.3 million whose hourly wage is less than the minimum wage plus the cost of the mandate, roughly $6 an hour. The impact lessens at higher wage scales—not only is the mandate's cost a smaller increase in total compensation, but a greater proportion of higher-wage workers are covered already.

The uncertainty extends beyond mandated health benefits. Richard Freeman, a members of the secretary of labor's Commission on the Future of Worker–Management Relations, the special group formed by the secretary of labor to recommend revisions to the National Labor Relations Act, wants to emulate European employment practices—shorter work weeks and a greater number of vacation days, including perhaps as much as four weeks of leave—all in the name of forcing an increase in employment. In Europe, however, these policies have been unable to prevent unemployment rates that are substantially higher than those in the United States. France, Britain, and Italy all have unemployment rates close to 11 percent; unemployment is running 9 percent in Belgium, and close to 8 percent in Sweden and former West Germany. European heavy industries, such as steel-making, have seen employment

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losses as severe as in this country despite shorter work weeks and work years. These employment policies promote unemployment sharing, not job creation.

At the same time, Clinton administration officials support a number of projects that, if enacted, would raise costs for the vast majority of employers, regardless of industry. The chief economist for the Department of Labor, Lawrence Katz, has spoken favorably of the European practice of extending collective bargaining agreements to firms not party to them, as well as raising the minimum wage. The new assistant secretary at the Department of Health and Human Services, David Ellwood, is on record as advocating drastically higher minimum wages despite his acknowledgement that such an increase would be accompanied by job losses.

Discouraging Employment

Large numbers of high-paying jobs with high skills content are the Holy Grail of all administrations. How to get all three at the same time is the hard part. Conceivably, you could mandate that all jobs in America must pay over $40,000 a year. The jobs that remained would meet at least one and probably two of the three criteria, but there would not be very many of them.

Requiring that employers pay for health insurance is equivalent to a 63-percent payroll tax for minimum-wage workers.

The Clinton administration's strategy of driving up labor costs by taxing employment seems guaranteed to discourage hiring at all levels, but particularly for low-wage labor. Hiring will only make sense for an employer who is acquiring skilled workers with already-high levels of productivity. But America will need jobs at all levels, not just for those with post-graduate educations or those who can get into the apprenticeship programs favored by the administration. To sacrifice low-skilled, entry-level jobs is to close the future to many marginally skilled job entrants.

We must accept that the immediate postwar years were an aberration in American economic life. An economy in which individuals could leave high school—with or without a degree—with few if any job skills, and enter into lifetime employment at high wages was only sustainable when much of the world's industrial capacity lay in ruins. America went on a postwar binge no different from a Texas oil town when the gushers come in; but now it is time to accept that the boom is over and we all must work for a living.

Free Lunch Theory

To create good jobs means that we must let jobs be created at all levels of American society. Not all jobs will be "good" jobs immediately. Some will be decidedly entry-level jobs. Yet we cannot ignore the large numbers of entry-level workers who need those jobs and who, without access to them, will not be able to advance. Our option is either to force entry-level jobs out of existence by requiring that employers pay high wages and provide benefits, or to recognize that without these jobs individuals with deficient education and training—and America has many—will never enter the workforce. If these people cannot enter the workforce, how will they acquire the skills to progress in the workforce?

On this score the administration was half right. We do need to do a better job training and retraining the workforce. But the administration failed by believing that the costs for such a program could be passed on to employers. It was this free lunch theory of social progress that drove Mr. Clinton to campaign on a platform to tax employers 1.5 percent of payroll in order to improve skills in the labor force. The support that could have been won for a skills-enhancement program was squandered by casting it as an entitlement, no different than welfare.

As former senator and well-known liberal George McGovern has written, "How do those least likely to be employed ever become part of the American workforce...? We too often forget that a job—any job—is often the best training for a 'better' or more specialized job. For many employees, an entry-level job is the only opportunity to learn about the workplace.... Unfortunately, many entry-level jobs are being phased out as ... employers are pressured to replace marginal employees with self-service or automation."

Conventional wisdom says that Americans should not try to compete on a wage level with Third-World countries paying pennies an hour for labor. That is true. The sad reality, however, is that Americans who enter the workforce with Third-World skills cannot continue to expect an advanced standard of living unless they either improve their skills or convince other Americans to subsidize them. If Americans want to live in a society that provides a wealth of services to all its members, then we must be willing to part with the notion that we can make someone else pay for these services. We cannot subsidize ourselves.

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Look What We Can Accomplish When We All Work Together.

At R.J. Reynolds Tobacco Company we are concerned about the environment...underage smoking...people getting along. From encouraging proper disposal of cigarettes and discouraging youth smoking, to helping create a climate where all people are treated with dignity and respect -- we're working with organizations and groups nationwide to do something about it. Here are just some examples...

Environmental Programs

Reynolds Tobacco is committed to the environment. We distribute a variety of materials -- ranging from posters to portable ashtrays -- to educate smokers about what they can do to reduce litter and keep the environment clean.

We're working with environmental organizations and local communities to communicate with consumers on how they can do their part.

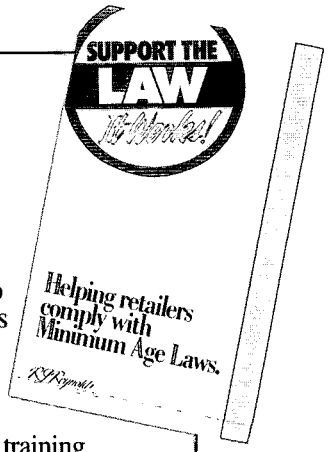
"Right Decisions Right Now"

Working with educators and experts, this special program has been developed to discourage youth smoking. Used in and around schools, this program includes special outdoor advertising, in-school posters, and teacher training materials to help instruct kids on how to resist peer influence to smoke.

"Support the Law... It Works"

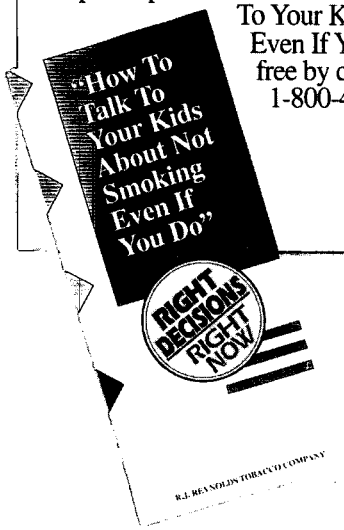
Most states already have laws that prohibit the sale of cigarettes to minors. Research studies show that supporting these laws will reduce minors' access to cigarettes by over 50%. And this means a significant reduction in underage smoking.

We've worked with retailers nationwide to provide a comprehensive training program to help them comply with minimum age laws on all age restricted products, including tobacco.



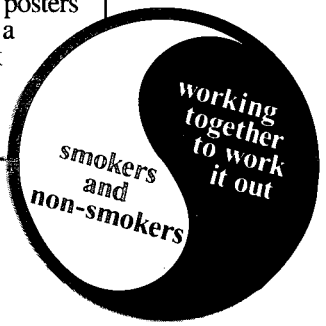
"How to Talk to Your Kids..."

Good communication has been shown to be an important deterrent to underage smoking. Working with parents and experts, we have developed a special parents information brochure, "How To Talk To Your Kids About Not Smoking Even If You Do." It's available free by calling 1-800-457-7200.



Peaceful Coexistence

In many public places, a wedge is being driven between smokers and non-smokers. R.J. Reynolds Tobacco's "Peaceful Coexistence" program is aimed at seeking solutions and better relations through courtesy and common sense. With the assistance of restaurant and bar owners, smokers and non-smokers, we're working to deliver this message on coasters, napkins, posters and other materials - provided free of charge. And they use a uniquely humorous approach to accomplish the serious task of building bridges instead of walls.



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West of Eden

California's Economic Fall

Steven Hayward

Economic catastrophe has struck California with the violence of an earthquake. For decades, California has been the most socially and economically dynamic state in the nation and one of the entrepreneurial capitals of the world. It truly has been America's Golden State—the El Dorado with its beaches and mountains, its sunshine, its majestic forests, its fountain of eternal economic opportunity. In the 1980s, California outperformed even the booming national economy.

The gold rush is over. California recently has been buffeted by natural and social disasters—drought, fires, flooding, earthquakes, riots—and by a recession that has hit California harder than any other state in the nation. With 12 percent of America's population, California has accounted for one-third of the total national job loss.

California often has led the nation out of recessions. Now, the collapse of the country's most enterprising economy is holding back the national recovery. All forecasts call for California to underperform the national economy in the 1990s, with employment and income declining through 1995. California's crisis has revealed a state government with out-of-control spending and burdensome bureaucracy, with even worse news to come in the next few years if changes are not made. Meanwhile, despite a steady flow of foreign immigrants, California is experiencing net domestic outmigration (more people leaving for other states than arriving from them) for one of the few times in its history. In 1988, 100,000 people moved to California from other states; this year, nearly 100,000 may leave.

Economic Fault Lines

Fault lines in the California economy were cracking open beneath the surface of the 1980s boom. Government regulation increased rapidly, taxes crept back up to their ruinous levels before the Proposition 13 property-tax revolt of 1978, and rapid spending growth left the state budget vulnerable in a recession. Although the California economy was booming, per-capita income growth was actually lagging behind the national rate.

As early as 1983, then-chairman of Hughes Aircraft, Allen Puckett, criticized California for being anti-growth and declared that Hughes no longer would invest in new plants in California. Hughes kept its word throughout the rest of the 1980s, but with a growing economy, a high rate of new business formation, and vigorous job growth, it didn't seem to matter if or why businesses moved or expanded out of state. This attitude of invincibility persisted through the beginning of the national recession in the second half of 1990. When *Forbes* published a cover story about California's deteriorating business climate in October 1990—"Is the Golden State Losing It?"—the article was greeted with a flurry of dismissive criticism by the local media.

State government joined in the miscalculation. In fall 1990, the Commission on State Finance, which makes independent economic and employment projections, predicted that California would experience a loss of 30,000 to 40,000 jobs in the coming year. By fall 1991, the number of jobs lost already had passed 300,000, and had not yet reached the half-way mark. The projected state budget "shortfall" for the fiscal year beginning on July 1, 1991, which was thought to be $7 billion in January, quickly grew to $10 billion in February, $12 billion in late March, and finally to more than $14 billion the following May. Budgets for 1992–1993 and the coming fiscal year are each more than $10 billion in the hole.

The causes of California's collapse, and whether some of them could have been avoided, are debatable. Almost everyone agrees that California's economic "biorhythms," so to speak, were all out of synch at once: a general recession, a cyclical real estate slump, a decline in foreign, especially Japanese, investment, and steep defense cuts.

California enjoyed a bigger real estate and construction boom than the rest of the country in the 1980s, and it has suffered from a bigger bust, as overbuilding in commercial real estate led to the savings and loan crisis and credit crunch. Although California's population continues to grow by more than 500,000 people a year, housing construction has fallen from 237,000 units in 1989 to just under 100,000 in 1991. In Southern Califor-

Steven Hayward *is research and editorial director for the Pacific Research Institute in San Francisco, and a contributing editor to* Reason *magazine.*

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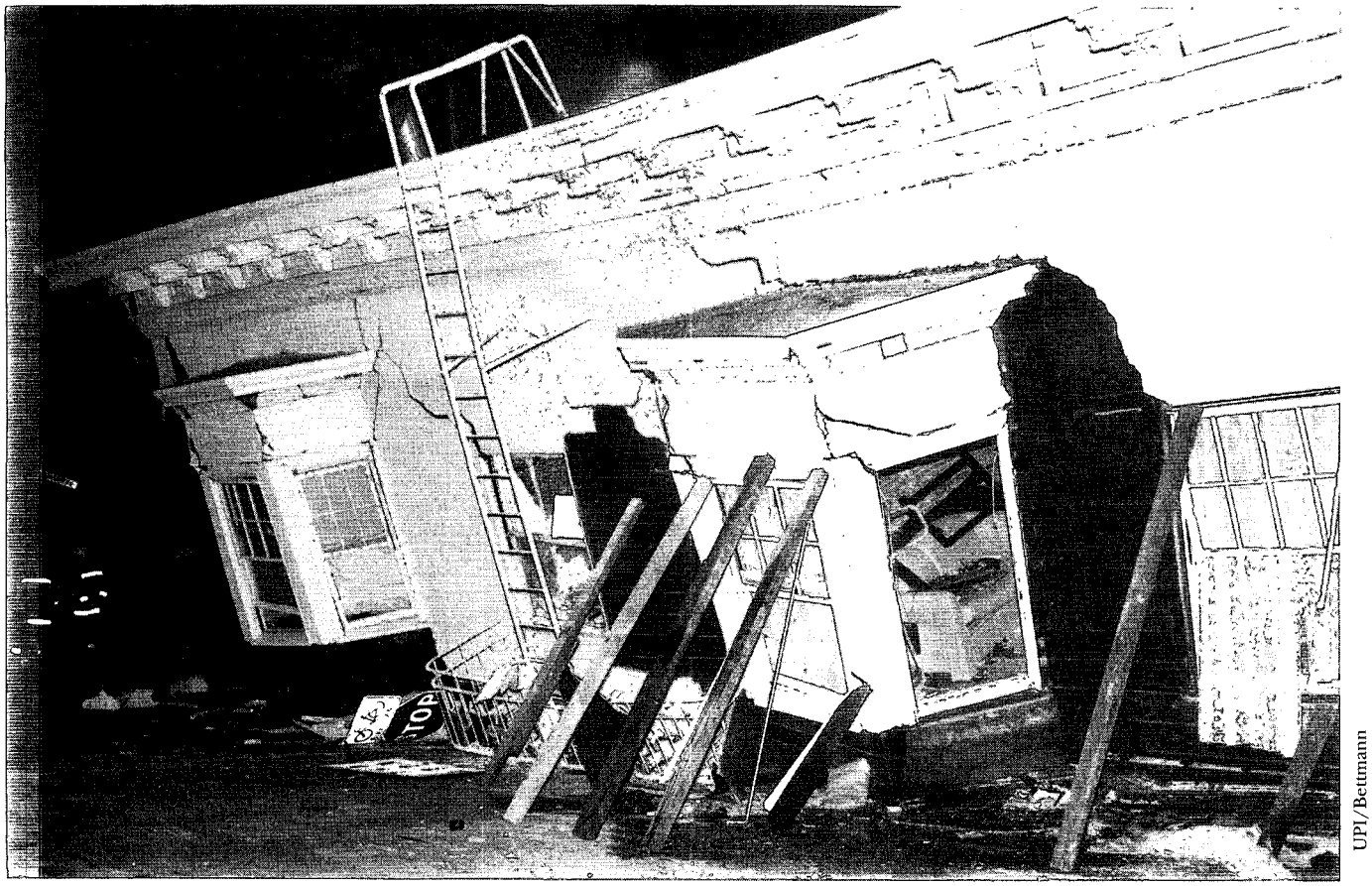

UPI/Bettmann

Economic catastrophe has struck California with the violence of an earthquake.

nia, which has been hit hardest by the slump and where most of the new population growth is, only one housing unit has been built for every 25 new residents in the past two years. Non-residential construction also has fallen by more than half since 1988. Construction-industry employment has fallen by nearly 30 percent since 1990.

Japan's Setting Sun

Less widely noticed has been the precipitous decline in Japanese investment in California. This decline probably owed as much to the collapse of the Tokyo real estate and stock markets as to the decline in investment opportunities in California. Japanese investors poured $7.4 billion into 68 California companies in 1990; in 1992, the Japanese invested only $620 million in 27 ventures. Japanese investment in California real estate has suffered a similar steep decline, from more than $5 billion in 1988 to less than $300 million in 1992.

Perhaps the most symbolic example of the decline was Japanese developer Minoru Isutani, who paid $850 million in 1990 to buy the famed Pebble Beach golf resort—only to sell it for $500 million last year. Meanwhile, Japan's California banks hold $60 billion in loans, a third of which are in commercial real estate whose value has fallen sharply over the last two years, leading to write-downs of loan values. Indeed, Japanese real estate investors in California suffered from many of the same speculative excesses they suffered in Japan. In 1992 Japan's California banks lost money for the first time since becoming a major presence in the state's banking industry. (California's banking industry in general has done as poorly as the rest of the economy, with 31 percent of the state's banks, including two of the 10 largest, reporting losses in 1992, up from 25 percent reporting losses in 1991.)

Military Meltdown

A third major factor in the crumbling California economy is defense cuts. California always has been a key state for the defense industry, accounting for more than 20 percent of the nation's defense-procurement spending. The end of the Cold War has meant anything but a "peace dividend" for California, however, where more than 120,000 defense and defense-related jobs have been eliminated in the past two years. Another 50,000 defense jobs may go by the end of 1993, and California will probably lose another 50,000 to 60,000 military jobs through base closures during the rest of the decade. The decline in defense spending is a prime reason why California, which received $1.22 in federal spending for every $1 in federal taxes paid 10 years ago, only receives about 90 cents for every $1 in federal taxes paid today.

What makes this round of defense cuts more significant is not the seeming finality of the post-Cold War defense downsizing, but the concurrent decline of the related civilian aerospace and high-technology sectors, where defense workers used to be absorbed in years past. Losing massive numbers of jobs in competitive sectors like civilian aerospace, electronics, and other manufacturing should raise a red flag that something else is at

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work—a deteriorating business climate. Peter Ueberroth, appointed chairman of a special Council on California Competitiveness by Governor Pete Wilson in 1991, concluded that "California's economic wounds are mostly self-inflicted." Numerous business leaders agree. Jerry Jasinowski, president of the National Association of Manufacturers, recently declared that California "clearly has the most anti-business climate in the country."

Many liberal policymakers in California still deny that there is anything seriously wrong with the state's business climate. But the evidence seems overwhelming: a stampede of companies has moved or expanded out of the state. According to a survey conducted by several public utilities, 668 manufacturing facilities either have moved or expanded outside of California since 1987, costing the state 92,000 manufacturing jobs; no one knows how many other jobs these plants would have supported. The survey found that 87 percent of these companies cited California's business climate as a major factor in their decision to relocate. A California Business Roundtable survey of 1,325 companies found that 44 percent intend to relocate or expand outside of California. The trend has become so pronounced that a 3M plant in Stockton recently made the news when it announced it was not leaving the state.

In 1990, California suffered the biggest decrease in new business start-ups nationwide.

The resulting loss of revenue to the state is staggering. And it is only a fraction of a multi-billion-dollar exodus to greener state pastures. Hughes Aircraft chairman Michael Armstrong estimates that Hughes' move to Arizona will cost state and local government more than $600 million in tax revenue every year.

Hot Tub to Cold Shower

Californians would not have to worry too much about businesses leaving the state if new companies relocated there to take their place. But in 1990, California suffered the biggest decrease in the number of new business startups nationwide, and business failures soared. As recently as 1988, California ranked third in the nation in the number of new manufacturing plants. By 1990, California did not even rank in the top 10 states.

The sorry business climate results partly from the high costs of doing business—costs that often are driven up by government regulation. True, some costs are functions of high demand in a dynamic marketplace; utility rates, for instance, are as much as 50 percent higher in California than in neighboring states.

However, the state's high housing costs also make it difficult for employers to attract skilled workers. California's median home price is $211,000; the national median price is $103,000, while the median home prices of neighboring western states are below the national average. This price disparity is a recent development. In 1974, California's median home price was only slightly above the national median.

There is abundant evidence that government regulation, more than market demand, is the chief cause of soaring housing costs California has experienced. In addition to development-impact fees that can add up to more than $40,000 per house in many parts of California, planning delays and permit conditions can nearly double the cost of building a new home.

Stressed Out

The most expensive example of government-imposed costs is workers' compensation, which is driving small and medium-sized businesses out of California. Between 1981 and 1991, the cost of California's workers' compensation program rose more than 200 percent. Over the same period, the workforce grew only 25 percent, and the rate of disabling injuries per 1,000 workers declined. A clue to the problem is revealed in the following fact: while California's workers-comp system ranks among the top five in the nation for cost, California ranks 44th in benefits paid to injured workers. A large number of middlemen obviously are feeding at the trough as well.

A potent political combination of lawyers, doctors, clinics, and insurers prevailed upon the legislature over the last decade to enact an expansive definition of compensable disability. Under this enlarged definition, an able-bodied person can collect on a "cumulative stress" claim, even if the job only contributed to 10 percent of the "stress." Virtually anyone who commutes in California's legendary freeway traffic can qualify under this absurd standard. Not surprisingly, stress claims have increased 700 percent in the last decade. Fraud is rampant, as a "60 Minutes" segment exposed last year. Yet, with such elastic thresholds of "injury" through "stress," it is hard to tell fraud from legitimate stress. A favorite tactic of laid-off or terminated workers is to file a stress claim immediately. Many are successful. When the Good Companies, a furniture manufacturer in the Los Angeles area since 1956, moved to Mexico chiefly to escape the prohibitive cost of local air quality regulations, they laid off 600 workers. When the company announced the layoffs, a workers-compensation attorney parked vans in front of the plant and ferried workers to the attorney's office. Of the 600 workers, 530 filed workers-comp claims against the company.

California is one of the nation's 10 highest-taxed states on a per-capita basis.

The result of such a system is skyrocketing insurance premiums that render California companies uncompetitive with out-of-state producers. Total workers-comp in-

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surance costs now top $10 billion a year in California—not much less than the state takes in through the corporate-income tax. McDonnell-Douglas reports that it pays $785,000 in workers' compensation premiums for every MD-80 airplane it builds in California. Seattle-based Boeing pays only $235,000 per similar aircraft. Not surprisingly, many companies that have moved from California have been able to recoup their moving costs in the first year from savings in workers comp costs alone. McDonnell-Douglas is now among the exiles: having already announced that it would build components for its C-17 transport plane in Missouri, McDonnell-Douglas recently announced that two major new programs, the AH-64 helicopter and its next generation MD-12 jumbo passenger jet, also will be made outside of California.

L.A. Law

McDonnell-Douglas and other manufacturers say that other government regulations, especially environmental regulations, are as damaging to business as workers' compensation. California's environmental standards are tougher than the federal government's. Perhaps the most serious obstacle to economic activity comes from the complexity, delay, and uncertainty of the environmental review and permit process. In Los Angeles County, for example, businesses must get environmental permits from as many as 27 local agencies and up to 32 state agencies. Federal agencies also get in on the act, bringing the possible total permit gauntlet to over 70 agencies.

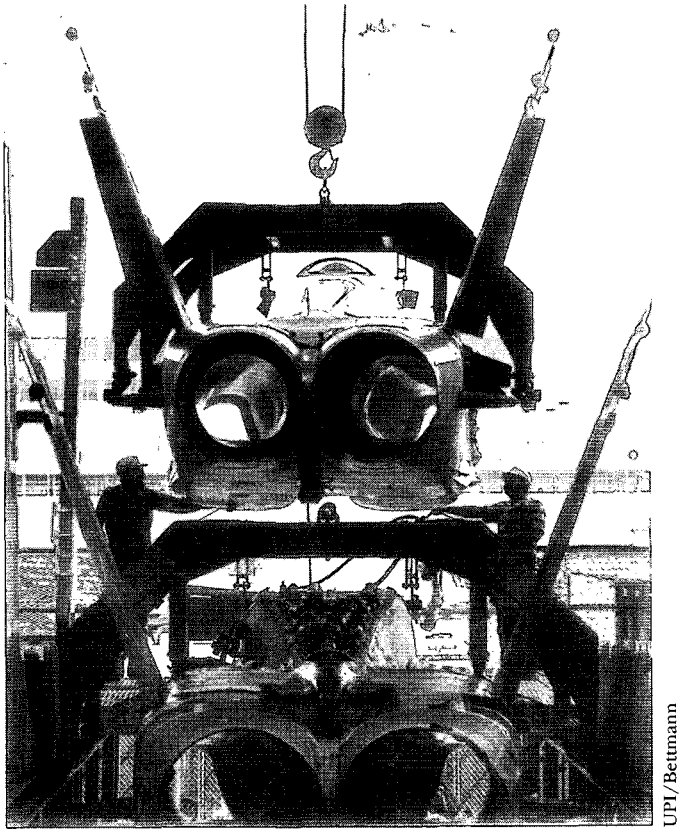
Environmentalists frequently use legal challenges under CEQA to prolong the lengthy review process for up to a decade. For instance, it took one company 10 years to move from initial permit application to groundbreaking for a $140 million recycling and waste reduction center. During that time, the project was hit with 20 CEQA lawsuits from citizens, all but one of which was unsuccessful. Companies that operate in several states—retail distribution warehouses, for example—routinely report that identical projects are up and running in other states before the review process is even half finished in California. As one exasperated businessman told a state Senate committee hearing last year, "I would rather have a 'no' in two months than a 'yes' in two years."

Governor Pete Wilson has claimed that "California's economic wounds are mostly self-inflicted."

The worst example of regulatory overkill and perverse bureaucratic incentives is the South Coast Air Quality Management District (SCAQMD). The South Coast AQMD is charged with battling smog in the greater Los Angeles area. While L.A.'s worst-in-the-nation smog should be attacked aggressively, the SCAQMD and its regulatory strategy are a textbook model of an unaccountable anti-business bureaucracy. The district has its own governing board that is constituted through a fragmented and Byzantine process. Unlike the federal EPA, which must get an appropriation from Congress and submit to congressional oversight, the SCAQMD does not have to answer to the state legislature. It sets its own budget and raises its own revenue through permit fees and fines levied directly on businesses in the region—up to $25,000 a day. An older school of jurisprudence probably would have found the SCAQMD's autonomy to be an unconstitutional violation of the separation of powers.

Not surprisingly, the SCAQMD emphasizes regulations that generate revenue through permit fees on stationary sources of smog—which means businesses—even though two-thirds of the smog in L.A. is generated by cars and trucks. SCAQMD did its best to conceal the extent to which its overall plan would become an albatross around the neck of the region's economy. The district originally estimated that its regulations would cost about $3 billion a year. However, two independent estimates, one by the National Economic Research Associates (NERA) and another by Resources for the Future (RFF), placed the cost at $10 to $12 billion a year, or nearly $2,700 per household in the region.

NERA researchers noticed that the district's estimate



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The end of the Cold War has meant anything but a "peace dividend" for California. More than 120,000 defense-related jobs have been eliminated in the past two years.

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left out any cost figures for more than half the regulations contained in its 20-year plan. When the district added up its estimated costs, it simply added a "zero" to the bottom line whenever it came upon one of these uncalculated measures. When pressed in a public forum about this peculiar methodology, the chairman of the District's board said they didn't want to use "arbitrary figures." The NERA and RFF estimates reasonably suppose, however, that the uncosted regulations would cost something rather than nothing.

Under pressure, the SCAQMD has softened somewhat its anti-business attitude and has moved to adopt a market-based tradable permit system that has long been advocated by market-oriented economists and environmentalists. Meanwhile, efforts to streamline the environmental review and permit process are reaching a fever pitch. The secretary of the California Environmental Protection Agency, James Strock, describes the environmental review process as "convoluted, overly complex, and unnecessarily burdensome." Strock has made streamlining a major priority, but legislative action is required to cut away the thicket of red tape.

Leading the Tax Pack

All of this economic misery and regulatory excess would seem to provide conservatives with golden opportunities to advance a conservative agenda; however, conservatives have had a hard time finding their voice. For the past 10 years, California's Republican governors have taken the blame rightfully belonging to the liberal legislature. Along with the sorry fortune of President George Bush, Republicans received the lion's share of the voters' wrath last November. California provided Clinton with one-third of his national vote margin over Bush. In addition, Republicans actually lost a seat in the State Assembly, where they had been expected to pick up several seats on account of a favorable reapportionment following the last census.

Along with liberal dominance in the legislature has come staggering growth in California's government. Between 1958 and 1991, state per-capita spending (adjusted in real 1991 dollars) increased from $629 to $1,716. While real state spending per capita tripled, real per-capita income less than doubled. Hence, state government's share of personal income has risen from about 4.8 percent in 1962 to over 8 percent today. California is one of nation's 10 highest-taxed states on a per-capita basis.

The booming economy of the mid-1980s generated huge revenues that allowed the state budget growth at times to hit double-digit rates. Even with this rapid revenue growth, however, the state budget was still running a cash deficit every year. Each year the state budget would include a $1 billion or more "contingency reserve," but every year except one the reserve would finish the year several hundred million dollars below the budgeted figure. As long as the budget was technically in surplus, no one complained.

The onset of the recession in 1990 quickly exposed the unsound basis of state spending, and turned the small deficits into a huge gap. Revenues have been billions of dollars below forecasts, but the growth of spending continues unabated, actually rising in 1991 and 1992. Incredibly, even though the state's private sector has lost over 800,000 jobs, state government employment has risen by more than 5,000 employees during the past three years.

Coast Accounting

The state budget is driven largely by earmarking and automatic spending increases for entitlement programs. The caseload for entitlement programs such as welfare and Medical (California's version of the federal Medicaid program) is growing at double-digit rates, while the number of taxpayers is not. The ratio of taxpayers to subsidy recipients is falling rapidly, so much so that even a vigorous economic recovery is not likely to generate enough revenue growth to balance the budget in the next few years. Governor Wilson has called this "the taxpayer squeeze." By the year 2000, the Department of Finance estimates, the budget could still be $15 billion in the red. "There is simply no revenue system in the world that can pay for this kind of spending," a Department of Finance official told *Policy Review.*

Governor Wilson hurt himself badly in 1991 by agreeing to a $7 billion income and sales tax increase—the largest in state history—to help close the $14 billion budget gap. As supply-siders predicted, the tax increases failed to generate the revenue projected. Governor Wilson has since said that the tax increase was a mistake and has tried to hold the line on taxes in the face of successive combined budget deficits of more than $20 billion. Last year, the state had to resort to issuing IOUs to pay its bills, as the legislature bickered for more than two months at the beginning of the fiscal year before finally passing a budget. Governor Wilson now is proposing to roll back a part of the state's sales tax, reduce entitlement spending, and privatize some parts of state government.

Fixing California requires a massive overhaul of its budget process and regulatory laws. Fundamental budget reform should include the elimination of earmarking and automatic increases based on social program caseloads. Earmarking and "workload" budgeting remove spending control from the domain of legislative deliberation and accountability. Several studies have shown that state budgets grow more slowly in states without such spending discretion.

In order to reform the budget process and slow down overall spending growth, such spending programs as entitlements and corrections must be reduced first. State and local governments spend over $3 billion a year on entitlement programs for illegal immigrants; California's welfare grants are among the highest in the nation. Spending for corrections has soared by nearly 600 percent since 1978. California's incarceration costs rank among the highest in the country. Privatizing some medium-security prisons in addition to some other cost-cutting measures could make a huge dent in budget spending.

Second, taxes need to be lowered and redistributed. One of the unintended consequences of Proposition 13 was the centralization of revenue at the state government level. Local governments in California have been

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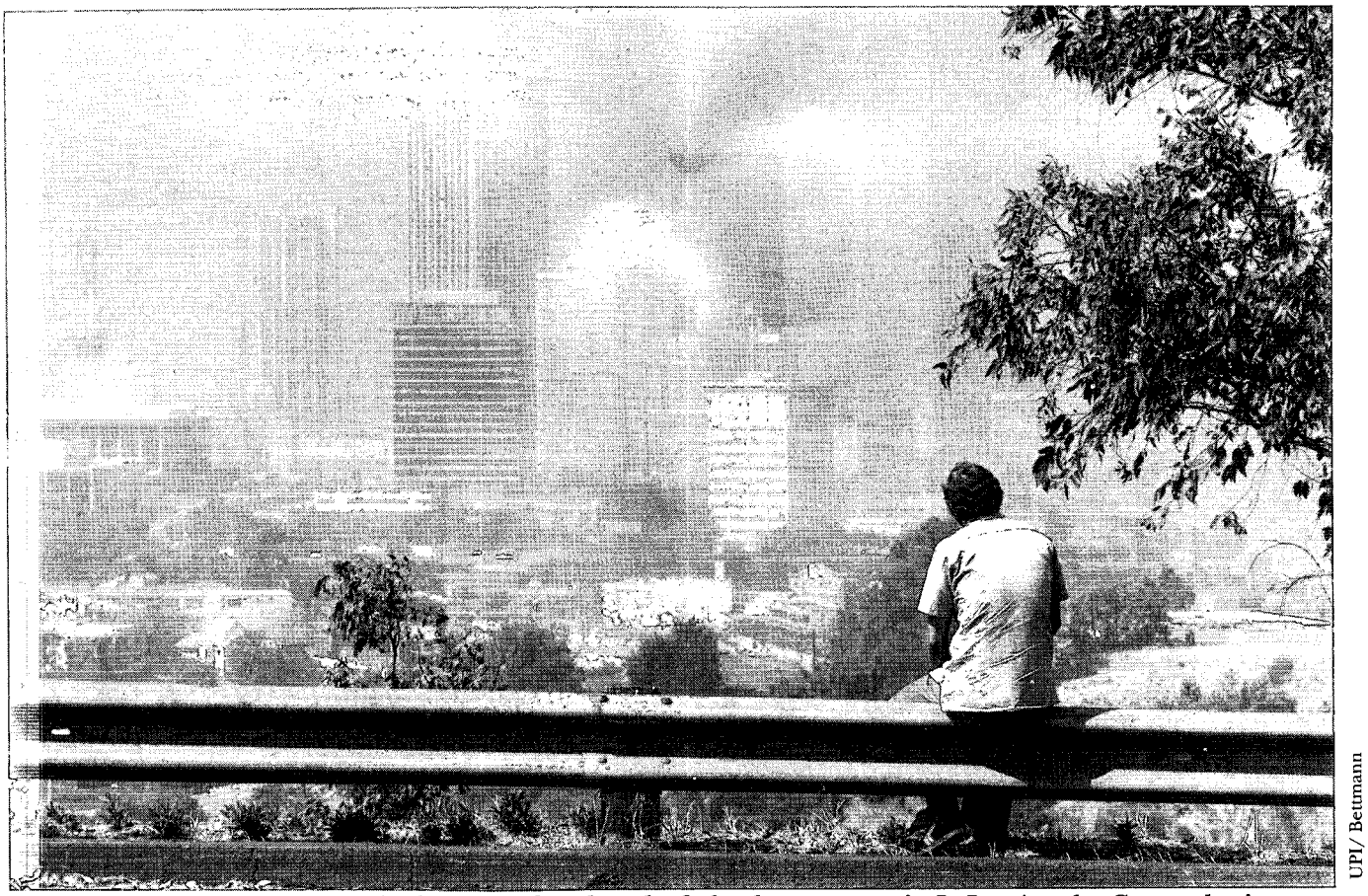

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California's environmental standards are tougher than the federal government's. In Los Angeles County, businesses must get environmental permits from as many as 27 local agencies and up to 32 state agencies.

gradually transformed into administrative units of state government because the state tightly controls the money flowing back to local government. Not only should taxes be lowered, but a portion of the tax base should be shifted directly to local government control.

Third, some of the functions of state government need to be downsized and privatized. A few of the nearly 400 state boards and commissions, including such august bodies as the Pet Bird Advisory Committee, have been abolished, and the Wilson administration has dozens more on the chopping block. But this isn't where the real money and trouble is. There is still a lot of redundancy and unnecessary bureaucracy that can be eliminated. Does California need, for instance, both a free-standing Integrated Waste Management Board, and a Division of Recycling in the Resources Agency, who are tripping over each other while doing the same things?

Fourth, environmental and other regulations must be reformed. California needs to reevaluate whether its own environmental standards, which usually are tougher than federal standards, have been set unrealistically or unscientifically. Conservatives need to press not only for a streamlined review process, but also for the adoption of market-based or incentive-based environmental policies, which are a less costly and more effective alternative to the bureaucratic "command-and-control" regulation now in place. The good news is that some environmentalists in the state are sympathetic to these ideas. Conservatives have a unique opportunity to form coalitions with moderate environmentalists against the bureaucrats and the radical environmentalists.

Much of this agenda probably cannot be accomplished without a conservative majority in the state legislature. But conservatives can hope to gain strength in California with the right themes and a strong voice. The split between conservatives and moderates in the California GOP has been overblown in the media. Although disagreements and enmity exist, the disastrous result of the last election has had a chastening effect on both camps—with both reaching for the common ground that does exist, especially on economic issues.

Term limits soon will take effect, throwing the legislature wide open for a complete change. A bold school-choice initiative is on the ballot for a special election in November, around which conservatives can emphasize the themes of empowerment and opportunity, especially for the state's large minority population. School choice would also break the power of the teachers' union and reform inefficient education spending.

Above all, California conservatives need to regain the dynamic themes of opportunity and growth that have served them well in California and elsewhere in the past. The huge budget deficits should be regarded as an opportunity for conservatives to press for the kind of changes in government that thus far have eluded them both in California and across the nation. There simply is no other way to avoid the economic equivalent of a tectonic shift along the San Andreas. ☎

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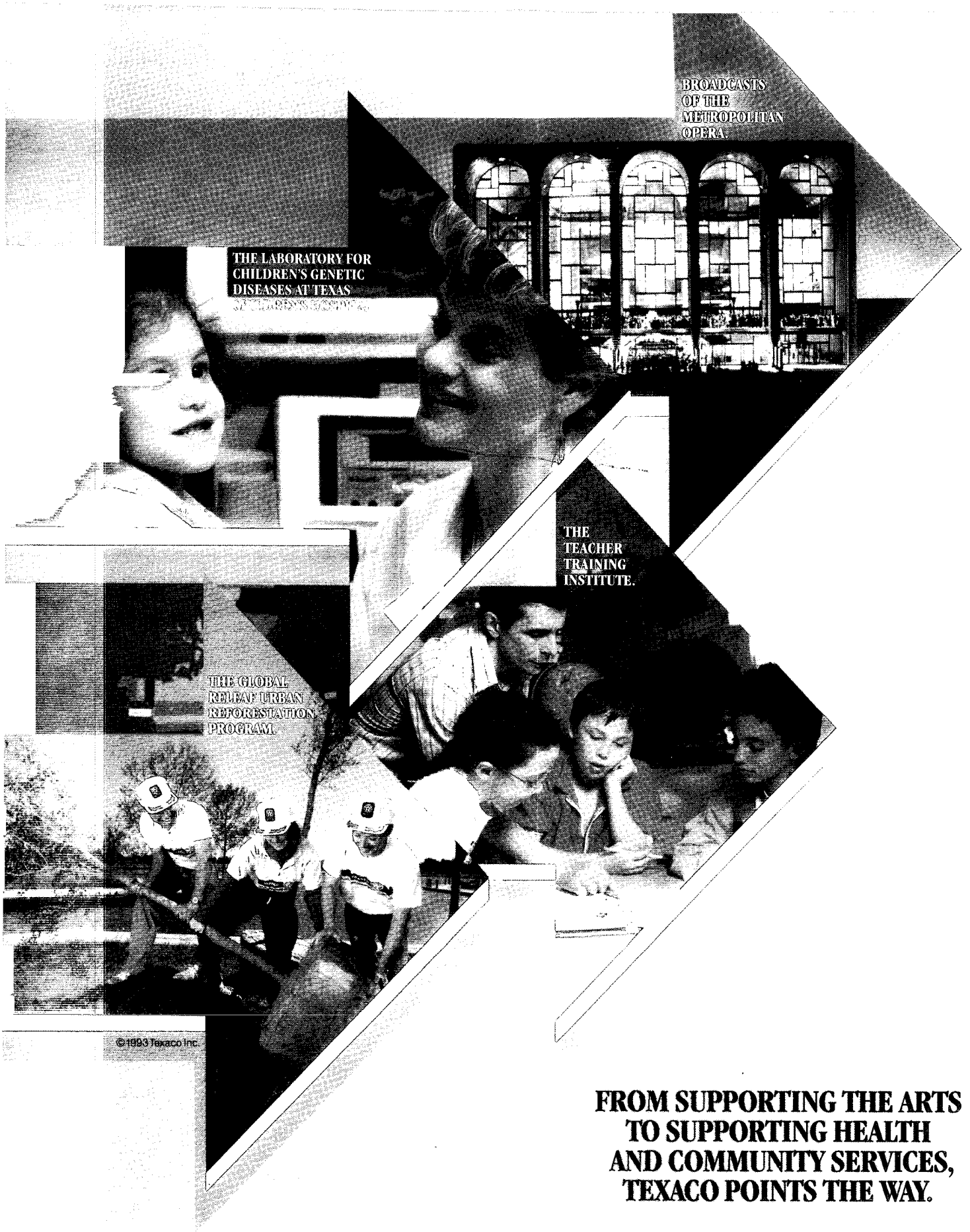
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Chicago's House of Hope

Tough, Loving Methods of Helping the Homeless

Sister Connie Driscoll

Ten years ago, Sister Therese O'Sullivan and I were surprised by a spiritual calling to help homeless women and their children on Chicago's impoverished south side, and opened the St. Martin de Porres House of Hope. It wasn't work we had planned to do, or that we had trained to do, but we found a real need in this community, and we realized we had to do what we could to heal these battered lives. Since we opened our first residence in 1983, we've learned a lot about homelessness—what causes it, what perpetuates it, and what we believe needs to be done to alleviate it.

The issue of homelessness has been a major headline grabber in the last few years, with a whole network of homeless advocacy groups springing up around the country. These advocates—some of whom have never even worked with the homeless population—believe the solution to homelessness is simply to provide housing. Our experience has convinced us that, while the housing supply is a factor, the deeper problem is a lack of personal responsibility on the part of homeless people themselves.

Breaking Down Walls

The St. Martin de Porres House of Hope is located in a pair of old buildings in the Woodlawn neighborhood, not very far geographically from Hyde Park, the University of Chicago's locale. I discovered the need in this neighborhood when I came back to Chicago to visit the nuns who had taught me in high school. They walked me around the Woodlawn neighborhood, and took me to a soup kitchen. The needs of the local population were great, so I decided to stay. Sister Therese joined me in finding and leasing our first building, which we bought six months later with money we raised from donations.

We learned a lot about rehabbing and remodeling—including the best way to break down a brick wall and techniques for getting the most out of a sledgehammer—when we were getting our first building ready to open. The need for facilities in Chicago was so great that women began moving in even before the work was done. Our skills were in good shape by the time we took on our second building, the local Catholic parish's former school.

Today we have a total of 110 beds for women and their children in the two facilities. We reserve two-thirds of our space for substance abusers. Our success rate—only 4 to 5 percent of our residents ever return to Chicago's shelter system, as opposed to nearly 40 percent for the system as a whole—tells us we're doing something right.

Responsibility and Accountability

St. Martin's is different from other shelters because—to put it bluntly—this is not a place where homeless women are going to be coddled. We put a tremendous amount of stress on personal responsibility and accountability, which sets our group apart from most other agencies. There are many causes of homelessness: drug and alcohol addiction, mental illness, and lack of education or housing are just a few.

But what we've found is that the most common cause is a lack of personal responsibility; thanks to public assistance, these women almost always have the money to pay their rent, but they often do not. Sometimes they spend the money on something else; or they get mad at the landlord and don't pay the rent; or they forget to pay the rent on time, month after month, until the landlord evicts them. The public welfare bureaucrats say the poor don't receive enough government money, but I disagree. The main causes of homelessness are various kinds of dysfunctionality, and an often total lack of understanding of personal responsibility and discipline.

Anyone who wants to stay at St. Martin's has to follow the rules, and we have a large number of rules to follow. Wake-up is at 6:30 A.M. every morning on weekdays, and 7:00 A.M. on weekends. Every woman is expected to keep her own area neat and clean. All residents must attend group sessions on Monday and Wednesday mornings from 10:00 A.M. until 11:30 A.M.; at these sessions, residents discuss their problems, what they hope to achieve in their lives, and how the programs at St. Martin's can help them. Substance abusers have daily 12-step meet-

Sister Connie Driscoll *is president of St. Martin de Porres House of Hope.* Bryan Miller, *who assisted in writing this article, is a freelance writer in Chicago.*

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ings—both Alcoholics Anonymous and Narcotics Anonymous sessions are held at our facility—evening meetings on various topics, and individual therapy sessions. Any resident who does not have a high school diploma must attend equivalency classes—these classes are not optional. Residents are required to take classes in parenting and life skills. Mothers must keep an eye on their children at all times, although we do have our own preschool, open every day, for the younger children of our residents.

We try to teach our residents financial responsibility as well. Anyone who stays here is required to save 80 percent of her assistance money and 50 percent of her food stamps, so that she will have a nestegg when she leaves to set up her own household again. Learning to manage and save money is imperative for these women, so we also instruct them about comparative shopping, and other real-life skills.

Sister Connie Driscoll. "The most common cause of homelessness is a lack of personal responsibility."

Strict Rules

Since accountability is so important, we have strict rules regarding the whereabouts of our residents; they can't just come and go. They must sign out when they leave the building, stating their destinations—just writing "out" is not adequate—and their expected time of return. They also must tell us if they'll be present for meals. Women with children must be in by 7:30 P.M. except in summer, when the curfew is extended to 8:15 P.M. Everyone else has to be in by 9:30 P.M. These curfews don't apply to the substance abusers; they are not allowed to leave without getting a pass and telling us specifically where they are going. They also have a four-hour limit on how long they can be gone, a limit we can extend as they get stabilized.

It goes without saying that alcohol, drugs, and weapons are not allowed on the premises. Any prescription medication is locked up, and issued when needed—our first priority is the safety of the children.

These are tough rules—and there are many more—and we receive a lot of criticism from other service-providers because of them. Even some members of our own religious orders think we are too hard on our residents. But the fact is that discipline and responsibility are what these women need, and this "tough love" works.

If one of the residents is having a difficult time following the rules, we have a talk with her. We give everyone several chances to get her life together. If a resident can't work out her problems at St. Martin's, we help her to find a different place to go. But such relocations don't happen often.

Despite all our rules, women beat our doors down to get in to St. Martin's. The word on the street is that we're tough but fair, and that St. Martin de Porres is the place to come if you want to get your life in order. Many of our residents have been in other shelters, and they have not received the kind of help they really need.

Most of our residents are referred to us by government agencies, including Chicago's Department of Human Services or the Department of Children and Families, or by hospitals, schools, or churches. Hardly anyone just walks through the door—but homeless women often ask for a referral to us.

Drug Abuse

The very hardest part of my job is watching the suffering of good people with substance-abuse problems, and what that does to their children. The effect on the kids is the most gut-wrenching part of all. Substance-abusers, in particular, have a hard time resolving their problems; they really have to want to turn their lives around. Over the years we have seen more and more women with drug- and alcohol-abuse problems, and a year ago we made the decision to devote half of our resources to them. Once we get these residents stabilized, we encourage them to look for apartments. Many of our "graduates" live in the community, in two nearby apartment buildings, where they can support each other in their efforts. They still call in to the House of Hope and let us know how they're doing; they still come in here for Narcotics Anonymous meetings, and every Sunday afternoon they have a meeting of their own. So far, our success rate with drug users has been very encouraging.

At the same time we decided to separate the abuser population from the other homeless, we drastically cut back on the number of pregnant and parenting teens we housed. This population used to be a large part of our clientele.

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House of Hope

Young residents of the House of Hope. "The very hardest part of my job is watching the suffering of people with drug abuse problems, and what it does to their children."

The primary reason for the decision to reduce our beds for this group is that most of these girls are not really homeless. Perhaps one out of 100 really qualifies as homeless; the rest just did not want to follow their mama's rules. Helping these girls was a very tough proposition for us: if they weren't going to obey their mothers, and get into the house by 9:00 or 10:00 at night, they sure weren't going to follow our guidelines, and be in by 7:30! So instead of offering them shelter, we've changed our focus—we try to get them back with their families, and to make sure they stay in school so they can get the educations they must have if they're ever going to break the dead-end cycle of poverty.

When pregnant and parenting teens come to us, we require that they stay in school. Then we assign to the girl a case worker, who works with the girl to get her back together with her family and into programs to help with specific problems. We try to help these girls set and achieve goals, for themselves and for their children, and we follow up continually. In the meantime, we're putting our limited housing resources where they can make the most difference: rehabilitating drug and alcohol abusers. I think we've made the right choice.

The second-hardest part of the job, I must admit, is raising funds. The bulk of our support comes from foundations, corporations, individuals, and speaking fees—I'll go almost anywhere to make a speech. I do most of the fund-raising myself. To maintain our independence, and continue to operate our shelter in the way we feel we must, we do not accept money from any government agency, or even from the Roman Catholic Church. Some individual parishes do take up special collections for us, and that helps. But things are often tight. Sister Therese and I are fortunate to have a dedicated staff who put in long hours for very little money; nobody who works for us is doing it for the pay scale.

Our work at St. Martin's, and our techniques for helping homeless women take charge of their lives, attracted attention at City Hall. Chicago's Commissioner of Human Services, Daniel Alvarez, decided it would be a good idea to have a civilian head up Mayor Richard Daley's Task Force on the Homeless, and he thought I might bring some fresh ideas to the job, so I was appointed chairman in 1989. I am the first non-bureaucrat to hold the position. One of my first acts as chairman was to re-evaluate the way the staffs of Chicago-area shelters were counting the number of homeless in our city.

Homeless Numbers Don't Add Up

The actual number of homeless in America is a hotly contested figure. I think some of the advocates inflate the number of homeless individuals in order to get more financial assistance from the agencies that support them. Actually, there are more than enough genuine homeless people without exaggerating the count. The National Coalition for the Homeless claims that there are between 2.5 to 3 million homeless people in the United States. I think that number is vastly inflated; the real number is probably closer to half a million, and they are not all

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looking for shelter on the same night. I base my estimate on regular polls I take of the usage of shelters in different cities, a poll I update frequently. So I no longer pay attention to the NCH figures.

The homeless count gets inflated in part because people who aren't really homeless are often included, like those who are just between apartments for a few days, and go to a shelter instead of to a friend's place or a motel. In Chicago, the court-mandated system says that anytime there aren't enough regular beds for the inmates at Cook County Jail, the excess population has to be released, and many of these men simply head for a homeless shelter. They are not allowed to sleep on mattresses on the floor in jail, but that is exactly what they do as soon as they're released. Another major problem is the overcounting of the legitimate homeless.

Previously, if a woman went to Shelter A and found it full, she was counted as a turn-away. If she went to Shelter B, and they didn't have room either, she was counted a second time. By the time she actually found a bed at Shelter C, she'd been counted three times.

To prevent this overcounting, I developed a form for service providers to fill out, with space for initials (to preserve privacy), age, number of children, and their ages—to prevent double and triple counting. By implementing this tracking system, we cut the count of turn-aways in Chicago by two-thirds. Today, in my capacity as chairman of the task force, I keep track of all of the area-shelter statistics, and we have a pretty good idea of exactly how many homeless people there are in the city and how many beds are required. These statistics tell me that our methods work better than those used by other groups for tracking the homeless population.

Warming Centers vs. Real Warmth

Another point on which we disagree with the advocates is whether or not we need warming centers. There are a number of well-meaning people who believe in setting up mattresses in church basements and letting people sleep there overnight. Usually, it's a different location every night, and the people have got to find a place to spend the day. Too often, they make a nuisance of themselves in local libraries and parks. What's worse, they don't have the continuity that they need to get their lives together.

I can't imagine sleeping in a different place every night, with no place to keep my personal belongings, no place to go during the day, no way to put a resumé together, nowhere even that I could tell a prospective employer he could call me! I especially can't imagine putting a child through it—yet, many homeless advocates are putting resources into these warming centers, instead of into real shelters with real programs that could help these people regain their lives. If you're going to try to get people stabilized, you can't just revolve them through a nightly system. You have to do more than offer them a place to sleep.

There is an urgent need for more shelters that take our approach and advance the objective of getting the homeless to be more responsible for their own lives. My first word of advice to anyone considering the St. Martin's approach is to take off the rose-colored glasses.

House of Hope

The need for facilities in Chicago was so great that women began moving in even before the work was finished on our first building.

Take a look at each individual person, and try to address her or his needs. Because no matter what you do, you're not going to solve the whole homeless problem with one program. We spent our first six months figuring out that you can only do so much.

We've found that it is essential to keep the house from getting too large. I think that anything over 100 adult beds is too big, because you can't really give individuals the help they need. Frankly, I think the smaller houses—those with 50 or 60 beds—have the best chances for success.

Another thing we've determined in our work is that government assistance actually may be part of the problem. We're not going to see any significant improvements in the homeless numbers until we see some major policy changes in the way welfare is administered. I'd like to see the whole system abandoned; people should not live continually on the dole. People must obtain job skills; they have to decide on their own what they want to make of their lives.

The homeless advocates, because of their heavy reliance on government funding, have called me cruel for saying that we must cut off this easy government money, that we must put time limits on how long individuals can collect assistance, and that we must put limits on the amount of assistance available.

But the fact is there's nothing more satisfying than being self-sufficient, and accomplishing your goals. The people who have come through St. Martin de Porres are happy. Their lives are their own. They have discovered the satisfactions of earning their own money, saving their money, and spending it as they wish.

Success and Independence

The really satisfying part of my job is seeing our success stories, and they're all over the Chicago area, with jobs and responsibilities. They are living in decent apartments; they're teaching their children a better way

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House of Hope

"St. Martin's is different because, to put it bluntly—this is not a place where homeless women are going to be coddled." —Sister Connie Driscoll

to live; they're getting educations and turning their backs on the way they used to live. Not a day goes by that Sister Therese and I don't hear from a former resident, just checking in to let us know how her life is coming along. And it's almost always good news.

Happy Endings

There are women like Juanita Green, a child of the black middle class who had a college degree and a responsible job, and burned them both up with her five-year crack habit. When she arrived at St. Martin's, she was broke, with a brand-new baby; her other child had been taken from her and was in foster care. Her first day here, she told us, "I feel like I'm no good." We told her it was up to her to make things happen, but that we were here to help her. Nine months later, she was clean; she'd saved $3,000 in cash, and more than $1,200 in food stamps. She was reunited with her older daughter, and she was ready to set up her own apartment. It was a proud moment when she got a job, told public aid goodbye, and came back to inform us, "Now I'm a taxpayer again."

"Roxanne" (not her real name) will admit that she doesn't always maintain our strict 10:30 P.M. bedtime—but at least she's not staying up all night anymore. She benefitted from our forced discipline and accountability—and tells us that the life-skills classes she had at St. Martin's taught her how to take care of her children. Through our programs, Roxanne kicked her crack and alcohol addictions, and has stayed clean. Being free from drugs and a good mother to her children are huge accomplishments for this former resident, and she credits the responsibility she learned at St. Martin's with giving her the strength to do both.

Most of our clientele is poor and black, but by no means all. One of the toughest cases we've ever had was "Catherine," from a middle-class white family. She was sent to us six months pregnant, after seven years of continuous drinking. Catherine was abusive, and tested every single limit we had.

One night she managed to slip out the back door of the shelter, get hold of a bottle, and disappeared for several days. We threw her out when she finally turned up several days later—but she came back the next week, bruised and battered, and begged us to take her back. We did, but we watched her like hawks after that; she didn't even get to go to the bathroom by herself.

Three months later Catherine had a beautiful baby with no trace of fetal alcohol syndrome; today, she's happily married and has a good job. Catherine is one of our greatest success stories, but there are scores of other women like her.

The St. Martin de Porres House of Hope alone can only do so much. But there is no reason that other individuals or groups who want to make a difference helping the homeless can't apply the same principles and achieve the same results. I firmly believe that the only way we really can help the homeless is to teach them how to help themselves. ☎

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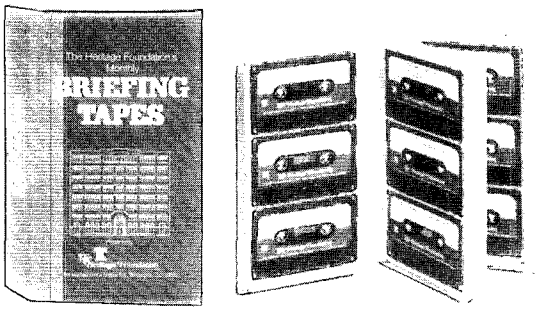

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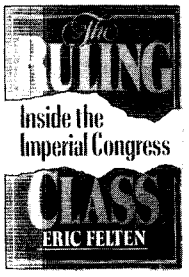

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So join us in supporting our schools. Together, we have the power to improve America's educational system. Together, we have the power to improve the future.

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Free Trade's Forgotten Amigos

Why Governors Want NAFTA

Douglas Seay and Wesley Smith

Prospects in Congress for the North American Free Trade Agreement (NAFTA) with Canada and Mexico look gloomy. Leon Panetta, President Clinton's director of the Office of Management and Budget and a proponent of NAFTA, says the proposed agreement is "dead." Although President Clinton, Treasury Secretary Lloyd Bentsen, and Labor Secretary Robert Reich all publicly support NAFTA, the administration is more ambivalent than the Bush administration, which pushed for NAFTA aggressively. Congressional opposition to the agreement is widespread and growing, most notably among Democrats, but among many Republicans as well. Labor and environmentalist lobbyists have mounted a well-financed effort to derail NAFTA. Their strategy is to argue that it would lead to massive job loss, the de-industrialization of the United States, and a lowering of labor and environmental standards to those of the Third World.

In contrast to this intense hostility and feverish activity in the nation's capital is the view from the state houses, where NAFTA is regarded as self-evidently good for state economies. According to a Heritage Foundation survey in June 1993, 40 of the country's 50 governors actively support NAFTA—22 of the 30 Democrats, one of the two independents, and all of the 18 Republicans. This near-unanimous support comes from north and south, east and west, agricultural and industrial states. The universal reason the governors cite for their support is NAFTA's expected positive impact on their states, especially on job growth.

This surprising consensus among the governors has gone largely unnoticed during the public debate, and NAFTA's supporters have overlooked a valuable set of allies. The contrast between their strong support and the growing opposition in Congress suggests a major difference in decision-making between Washington and the states. Congressmen and governors make different trade-offs between special interests and the general welfare.

NAFTA's Tortuous Path

NAFTA's path to congressional consideration has been long and difficult. First floated as an idea by Ronald Reagan in his presidential campaign of 1980, a free-trade zone among the three countries did not receive active consideration until proposed by Mexican President Carlos Salinas de Gortari to George Bush in the fall of 1990. Although Mr. Salinas's original proposal was for a bilateral U.S.–Mexican agreement, Canada soon requested participation to safeguard its gains from the 1988 U.S.–Canada Free Trade Agreement.

The trilateral negotiations that began in 1991 proved much more difficult than anticipated, due largely to Mexico's desire to delay the opening of many of its most sensitive and politically powerful sectors, such as financial services. The resulting agreement, while not a perfect free-trade agreement, did provide for the removal of most barriers to trade among the three countries. Although substantially completed by May 1992, the delays in the negotiations had pushed the agreement far into the U.S. election year, and it was decided to shelve congressional action until after the election.

George Bush's defeat removed the agreement's key proponent in the United States. Although candidate Bill Clinton repeatedly expressed his support for NAFTA in the campaign, he conditioned his approval on the negotiation of additional and unspecified "side agreements" on labor and environmental issues. Ross Perot, by contrast, denounced the agreement, predicting a "giant sucking sound" as U.S. jobs were drawn south to Mexico. In one of his last acts as president, Mr. Bush signed the completed agreement in December and forwarded it to Congress, where it awaited the new president.

On taking office Mr. Clinton postponed congressional consideration until the completion of the side agreements, the negotiation of which began only in March. Since then, further delays have emerged, and Treasury Secretary Bentsen announced in April that, due to the administration's focus on its domestic economic package, a vote on NAFTA would not be forthcoming before fall.

Enemies Organize

These repeated delays have given the agreement's enemies time to organize. Among the first to lobby the

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Governors' Views on NAFTA

State	Governor	View
Alabama	Jim Folsom (D)	NR
Alaska	Walter J. Hickel (I)	Yes
Arizona	J. Fife Symington III (R)	Yes
Arkansas	Jim Guy Tucker (D)	Yes
California	Pete Wilson (R)	Yes
Colorado	Roy Romer (D)	Yes
Connecticut	Lowell Weicker Jr. (I)	NR
Delaware	Thomas R. Carper (R)	Yes
Florida	Lawton Chiles (D)	Yes
Georgia	Zell Miller (D)	NR
Hawaii	John D. Waihee III (D)	Yes
Idaho	Cecil D. Andrus (D)	Yes
Illinois	Jim Edgar (R)	Yes
Indiana	B. Evan Bayh III (D)	Yes
Iowa	Terry E. Branstad (R)	Yes
Kansas	Joan Finney (D)	Yes
Kentucky	Brereton Jones (D)	Und.
Louisiana	Edwin W. Edwards (D)	Yes
Maine	John P. McKernan Jr. (R)	Yes
Maryland	William Donald Schaefer (D)	Yes
Massachusetts	William F. Weld (R)	Yes
Michigan	John Engler (R)	Yes
Minnesota	Arne Carlson (R)	Yes
Mississippi	Kirk Fordice (R)	Yes
Missouri	Mel Carnahan (D)	Yes
Montana	Marc Racicot (R)	Yes
Nebraska	E. Benjamin Nelson (D)	Yes
Nevada	Robert J. Miller (D)	Yes
New Hampshire	Steve Merrill (R)	Yes
New Jersey	James J. Florio (D)	Yes
New Mexico	Bruce King (D)	Yes
New York	Mario M. Cuomo (D)	Yes
North Carolina	James B. Hunt (D)	Yes
North Dakota	Edward T. Schafer (D)	Yes
Ohio	George V. Voinovich (R)	Yes
Oklahoma	David Walters (D)	Yes
Oregon	Barbara Roberts (D)	NR
Pennsylvania	Robert P. Casey (D)	NR
Rhode Island	Bruce Sundlun (D)	Yes
South Carolina	Carroll A. Campbell Jr. (R)	Yes
South Dakota	Walter D. Miller (R)	Yes
Tennessee	Ned Ray McWherter (D)	Und.
Texas	Ann W. Richards (D)	Yes
Utah	Michael O. Leavitt (R)	Yes
Vermont	Howard Dean (R)	Yes
Virginia	L. Douglas Wilder (D)	Und.
Washington	Mike Lowry (D)	NR
West Virginia	Gaston Caperton (D)	Yes
Wisconsin	Tommy G. Thompson (R)	Yes
Wyoming	Michael Sullivan (D)	Yes

Note: Based on a Heritage Foundation survey taken in June 1993. Approvals include governors who are in favor of NAFTA only with certain side agreements. "NR" indicates no response to the inquiry, while "Und." means that the governor has not decided his position yet.

new administration were representatives of the flat glass and sugar-growing industries, which sought to reopen the NAFTA text for modifications in their favor. Much more serious, however, are the efforts of labor unions and environmentalist lobbies, whose economic and ideological interests pit them against free trade.

According to the Clinton administration's Department of Commerce, 700,000 jobs already have been created in the United States due to increased exports to Mexico. Most economic studies predict NAFTA will add several hundred thousand jobs in the United States. Nevertheless, the AFL-CIO makes no secret of its opposition to the agreement. Its secretary/treasurer, Tom Donohue, has proclaimed the defeat of NAFTA as the organization's "number-one priority." Opposition has been joined by environmentalist groups who charge that the agreement will lead to environmental degradation on both sides of the border. But the most potent political issue has been a fear that greater trade with Mexico will accelerate the loss of high-paying union jobs in many American industries. Union opposition to NAFTA has found resonance in the slow-growing U.S. economy, where fears of job security among the population have provided fertile soil.

As a result of the intense lobbying by anti-NAFTA forces, what was once commonly regarded as a done deal now shows signs of unravelling. Although two-thirds of the Republicans in Congress support NAFTA, only one-quarter of Democrats do, according to surveys. The situation is worse among the newly elected members; slightly over one-third of the freshmen Republicans in the House oppose or are leaning against NAFTA. According to Robert Matsui (D–CA), a NAFTA supporter, only 5 of the 63 freshman Democratic congressmen openly support NAFTA. The leaders of both houses of Congress, Senator George Mitchell and Speaker Tom Foley, stated in April that, although they support the agreement themselves, a vote on NAFTA would lose in both the Senate and the House of Representatives. Among congressional opponents, the most commonly cited reason for their position is fear of a loss of U.S. jobs, especially in manufacturing.

Evidence from the States

It therefore is highly significant that 40 of 50 governors are confident that NAFTA will be beneficial for their states. Supporters of NAFTA range from James Hunt of North Carolina to Evan Bayh of Indiana to John Waihee of Hawaii to William Weld of Massachusetts.

Governors are on the front line of expanding export opportunities for businesses in their states. They go on trade missions. They set up trade offices in foreign countries. They know that Mexico is overtaking Japan as America's second-largest market. Most of them have seen sharp increases in their states' exports to Mexico over the last five years as that country has removed many of its most egregious trade barriers. They say NAFTA simply will accelerate the opening of Mexico to U.S. business. With 70 percent of imports into Mexico coming from the United States, governors say that an expanding Mexican economy is great for American jobs. They maintain that the biggest job creation will come in small and medium-sized companies, the great employment engine in almost all states.

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Governor Pete Wilson of California, for example, points out that his state's exports to Mexico "more than doubled between 1987 and 1990, creating tens of thousands of new jobs." Nevertheless, the state's two senators, Barbara Boxer and Dianne Feinstein, as well as a large number of the state's congressmen, oppose NAFTA, fearing it will lead to job loss. But Governor Wilson argues that "commerce between the United States and Mexico freed of the constraints of tariff and non-tariff barriers means increased trade, and increased trade translates into vitally needed jobs on both sides of the border."

Governor Wilson's comments are backed up by statistics. Last year, the state's businesses exported $6.6 billion to Mexico, an increase of 190 percent over five years. More than 110,000 Californians' jobs depend on exports to Mexico, and an additional 106,000 jobs are supported by U.S. companies operating in Mexico that draw upon the services of California's trucking, management, warehousing, and service industries.

The opportunities of the Mexico market extend across the business spectrum. Over the past five years, California's exports have increased 489 percent in the food products sector, 382 percent in transportation equipment, 248 percent in electric and electronic equipment, 244 percent in chemical products, 169 percent in industrial machinery and computers, and 548 percent in apparel.

Specific examples are even more revealing. Cal-State Lumber Sales' business in Mexico has increased by 700 percent in recent years, allowing the company to increase its work force in California by 30 percent. The positive impact on jobs extends beyond the company's own payroll. According to Mary Alice Acevedo, director of international relations: "We buy lumber from several mills; our purchases have helped the mills keep U.S. workers on the job."

SJS Products of Rocklin that distributes U.S. manufactured electromechanical products, had faced layoffs due to the U.S. recession. SJS turned to Mexico to expand its sales and, according to William McGillivray, director of sales for the company, "We have not had to lay off one person since our involvement in Mexico. And all the products we export to Mexico are 100-percent U.S. manufactured."

Regional Support

The opposition to NAFTA within California's congressional delegation is unusual among the border states. In the rest—Arizona, New Mexico, and Texas—the governors' support for NAFTA is matched by that of their congressional delegations, with the exception of those members who are closely allied with environmental groups or organized labor. As Texas Democratic Governor Ann Richards, an especially vocal supporter of NAFTA, puts it: "For Texans, the successful conclusion of the Free Trade Agreement cannot be overestimated. NAFTA will have an enormous impact on our economy, putting us literally in the geographic center of a hemispheric trade zone, one that is 25 percent larger than the European Economic Community."

This strong bipartisan support is often explained by the assertion that since these border states will be the primary beneficiaries of NAFTA—perhaps even at the expense of other U.S. states—the broad support of the agreement among their elected officials is to be expected.

However, some of the strongest supporters of NAFTA are located in the Midwest, the very heartland of U.S. manufacturing that NAFTA opponents allege will be devastated by Mexican competition. The governors of the industrial states of Wisconsin, Illinois, Indiana, Michigan, and Ohio all are strong supporters of NAFTA.

Michigan Can't Lose

Of these, Michigan is the most interesting case, for the state is depicted routinely as a certain loser from NAFTA, and its congressional delegation leads the opposition to the agreement. Michigan's Governor John Engler, however, is one of NAFTA's most enthusiastic supporters. He points out that Michigan's exports to Mexico are fast approaching the $2 billion mark, that Mexico is Michigan's second-largest foreign customer, that only two states export more to Mexico than Michigan does, and that Michigan exports four times more goods to Mexico than the entire nation of Canada.

The most hard-core opponents of NAFTA in Congress are those most closely associated with organized labor.

In March 1993, Governor Engler led a trade delegation of 110 Michigan business and government leaders to Mexico. What he saw convinced him even more that lowering Mexico's trade barriers is good for his state:

"In a Mexico City showroom I saw an Olds like the one I drive selling for $50,000. The price of that car, and every other new Michigan car exported south of the border, will drop dramatically once trade barriers are lifted. In fact, our automobile exports to Mexico should double once all restrictions are lifted—and that means more jobs for our Michigan workers.

"Another example. Our trade delegation was spirited from meeting to meeting in buses that were powered by guess who? Detroit Diesel. There's a success story. Detroit Diesel's sales to Mexico have grown 80 percent in the last two years; 26 percent of their new jobs are a direct result of exports to Mexico."

Governor Engler says he has visited many factories in Michigan that are benefiting from freer trade. He points to Masco in Taylor, which produces car steering systems and other automotive parts; Haworth in Holland, which has seen a 10-fold increase in its office-furniture sales to Mexico over the last two years; Steelcase, which manufactures metal and wood office furniture. "I have seen the success stories in the faces of our workers," says the governor. "Don't tell the 31,000 Michigan workers who

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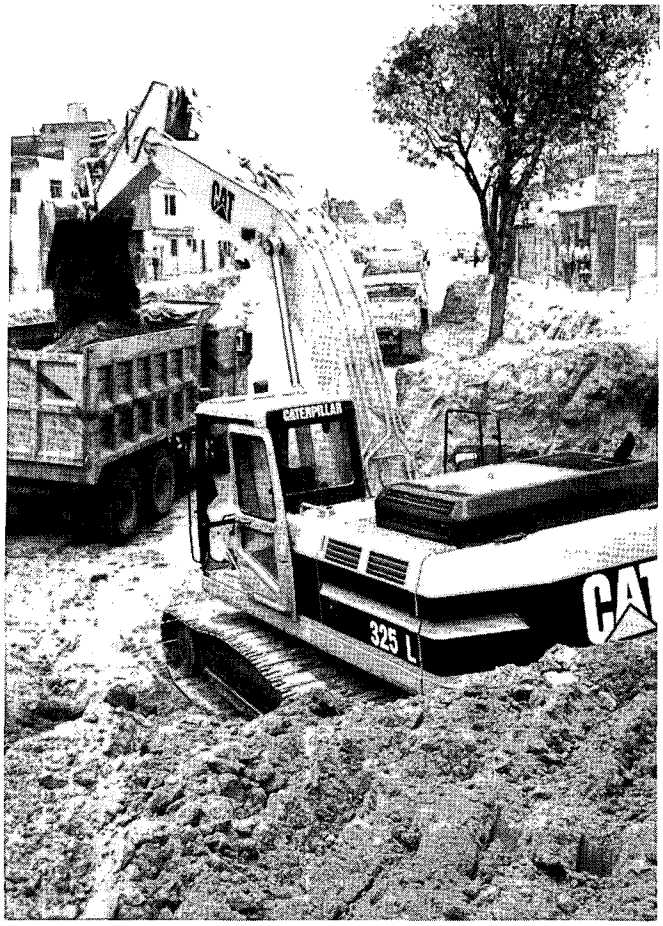

Courtesy Catepillar, Inc.

Mexico is Illinois's second-largest export market. Caterpillar products sold in Mexico account for 2,700 U.S. jobs.

owe their jobs to sales in Mexico that we should go back to the days of high tariffs and trade wars."

Governor Engler also tackles head-on organized labor's opposition to NAFTA: "If cheap labor were the key to company location, then Vietnam or Somalia would be manufacturing meccas. They are not. Our location, knowledge infrastructure, and workers' skill level give us what I believe is the 'Michigan Advantage'—and NAFTA will strengthen our advantages even more."

"The way to protect Michigan jobs," says Governor Engler, "is not by building a wall around our state and ignoring the competition. Michigan, remember, is made of peninsulas, not islands. We live in, and are connected to, the global marketplace. So the way to bolster Michigan jobs is by creating the best entrepreneurial climate possible. That means lowering taxes, reducing burdensome regulations, downsizing government, educating our children for the future, making sure government does no harm to our families. These goals in the long run will keep Michigan competitive and enable our state to set the pace in the global marketplace."

Consensus in the State Houses

Other Midwestern governors support NAFTA for similar reasons, even though many of the region's senators and congressmen are strongly opposed. Governor George Voinovich of Ohio says that exports are responsible for one in seven manufacturing jobs in his state and points out that Mexico is Ohio's sixth most important export market. Senators Howard Metzenbaum and John Glen, however, oppose passage of NAFTA, citing fears of job loss. Governor Jim Edgar of Illinois says passage of NAFTA will mean "thousands of jobs for Illinois and an economic boost for our state, particularly in the long term. Illinois's exports to Mexico have more than tripled in the past five years, and the elimination of trade barriers will mean our businesses and their workers can continue to prosper from that trend." Last year Mexico beat out Japan as Illinois's second-largest export market. But Senators Paul Simon and Carol Moseley-Brown disagree and see NAFTA as a threat to Illinois's economy.

One of NAFTA's most prominent supporters is Governor Tommy Thompson of Wisconsin (see sidebar). He suggested a free-trade agreement to President Salinas when they met in Mexico City in November 1989. Mr. Salinas said the politics wasn't right at that time, but within a year, he and President Bush announced their commitment to the idea.

The same support is found in all regions. Governor William Weld says "NAFTA holds great promise for Massachusetts. And that promise is jobs. When you consider that for every $50,000 in additional sales to another country means one job at home, the prospects are very bright and very real."

In his speech to the 1992 GOP national convention, Governor Carroll Campbell of South Carolina gave a ringing endorsement of NAFTA, saying the agreement "will create hundreds of thousands of new jobs for Americans." Senators Ernest Hollings and Strom Thurmond, however, remain steadfastly opposed to NAFTA, fearing losses in South Carolina's important textile industries that most studies predict in fact will benefit from the agreement.

Similarly, Governor William Donald Schaefer of Maryland called a news conference last year to urge prompt congressional action on NAFTA. He explained how Maryland's exports to Mexico had tripled from 1987 to 1991, and argued that "by extending to Mexico the same open trade policies that we have with Canada, the United States can create all types of new business opportunities for American companies, including those in Maryland." In a speech at the Southern Governors' Association, Governor Schaefer said he would like to see NAFTA extended to include the countries of Central and South America. Senators Barbara Mikulski and Paul Sarbanes, however, insist that NAFTA will harm Maryland's economy and lead to job losses. Unlike Schaefer, neither has visited Mexico with businesses and seen the opportunities for themselves.

Governors say that an expanding Mexican economy is great for American jobs.

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The same pattern is repeated throughout scores of states: rising employment due to increasing exports to Mexico, strong support for NAFTA by the business community at all levels, and strong support by the governor contrasted with opposition by members of the congressional delegation, many of whom cite fears of job loss and economic dislocation as the reason for their position, fears that are unsupported by any empirical evidence or independent study.

This marked contrast between the positions of these two groups can be attributed to a number of factors. Undoubtedly, the most important is the differing political forces acting on them.

Absolved of any executive responsibilities, legislators in Washington cannot prosper politically by promoting general interests, such as deficit reduction, but must instead devote their attention to advancing more particular interests, such as the angora wool industry, which punish or reward individual legislators according to very specific performance criteria. In addition, a congressman's power is tightly circumscribed and must be focused if it is to have measurable effect. As individuals, they have little power to determine policy on broad issues, but do have the ability to promote specific interests. Thus, it is not surprising that many representatives become closely identified with specific interest groups, who in turn provide them with both money and political support.

Governors, by contrast, must be concerned with their state's general welfare, as the appearance of exclusive concentration on any narrow interest group is likely to be punished at the polls. Generally, a governor's political career will rise and fall with the state's economy. Consequently, most governors are quite eager to be seen as promoting state exports, attracting investment, aiding in job creation, and creating an overall healthy business environment for their state.

Congressmen Too Detached

Few congressmen or senators are directly credited for general economic conditions in their state, good or bad; to the contrary, they are rewarded for, and thus concentrate their attention on, the delivery of specific and identifiable assistance to their constituents (*i.e.*, pork), such as a new highway or government grant. In that sense, representatives are free riders on a state's economic health—receiving credit for assistance to specific groups, but having little responsibility for promoting the general welfare—in a way that governors cannot emulate.

Thus, Congress regularly enacts measures that impose significant economic burdens on the states, like federal mandates that require states to enact specific programs, but without providing federal funds for those programs. The same pattern exists with the current debate over NAFTA, where congressional concerns and suggested remedies seem tailored to please specific constituencies regardless of their consequences to the general welfare.

For example, Senator Max Baucus (D–MT) has proposed a tax on goods crossing the U.S.–Mexico border to create a special fund for environmental projects in both countries. However, several Democratic and Republican governors, from Ann Richards (D–TX) to Tommy Thompson (R–WI), are against such tariffs on cross-border trade because such a tax is directly counter to the very purpose of a free-trade agreement and inevitably will inhibit trade. More specifically, they are convinced such tariffs will reduce exports from companies in their states by making their products more expensive in Mexico, thereby reducing job growth.

The Lobbyists

The contrasting positions at the state and congressional level are also attributable to the different pattern and make-up of lobbying at the two levels. Given the enormous transfer of power from the states to Washington over the last half-century, most of the politically activist organizations concentrate their efforts at the center, along with their money. Having little say over national policy, governors are largely spared the pressures of lobbying by national organizations, although they must contend with the local variety.

NAFTA's defeat would raise troubling questions about who truly represents the national interest.

The most hard-core opponents of NAFTA in Congress are those most closely associated with organized labor, which is quick to reward those it favors with generous campaign financing and assistance from sophisticated political organizations.

Although labor unions often make demands on governors, primarily on such issues as public sector employment and state labor law, they have not persuaded any governors to oppose NAFTA yet, but they have persuaded some of them to temporize.

Such is the case of New York's Governor Mario Cuomo. Exports to Mexico of manufactured goods have created over 23,000 jobs for New Yorkers over the past five years, and are rapidly growing. In addition, New York's enormous financial community will be among the biggest gainers as NAFTA forces Mexico's formerly closed financial sector to open to American competition on equal terms. Exports are way up in all categories. Even such unlikely exporters as New York's apple growers, which formerly were effectively excluded from Mexico's market because of tariff walls, have benefitted from Mexico's opening and see NAFTA as the best way to ensure their long-term access to that growing market.

Despite the agreement's beneficial impact on New York, however, the normally outspoken Mr. Cuomo has been surprisingly reticent regarding NAFTA. The New York governor told The Heritage Foundation through a spokesman that "NAFTA could lead to increased U.S. exports and greater economic opportunity in Mexico" but said "we must remain vigilant about the far-reaching impacts of such an agreement [on] Americans who may lose their jobs due to imports." His reluctance to take a

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AP/Wide World Photos

Governor Ann Richards of Texas, shown here with President Carlos Salinas de Gortari of Mexico, is one of NAFTA's most ardent supporters.

firm stand is not attributable to a lack of information, as his own state development agency has been quite active in promoting business in Mexico and has kept his office informed regarding the strong support for NAFTA among the state's businesses. Nor is Governor Cuomo opposed to free trade: he repeatedly has spoken out against "Japan-bashing." Instead, the reason for Mr. Cuomo's reluctance to publicly support an agreement that is good for New York likely lies in his close relations with organized labor. As important, his political horizons are commonly seen as being more national than state-centered in scope.

This national vs. state orientation is of no little effect. Its impact on positions toward NAFTA can be seen in President Clinton's own evolving views. As governor of Arkansas, Mr. Clinton was a strong supporter of free trade with Mexico. In his presidential campaign, however, Mr. Clinton's interests shifted to a different audience, and he pursued the votes and resources of the core Democratic constituency, especially organized labor. As a result, he tempered his support of NAFTA with the requirement that additional measures would have to be taken in the area of labor and environmental safeguards to ensure his support of the agreement.

Both individually and as a group, the governors are far more informed, and with a broader range of vision, than anyone in Washington could be about economic conditions in their states and the potential impact of NAFTA. Far more than congressmen, they must be responsive to the concerns of a broad range of interests, and tend to work much more closely with, and listen to, the small- and medium-sized businesses that provide most of the employment in their states but which generally have little presence in Congress.

Information and Experience

The governors have experienced first hand the impact of the international economy on businesses in their states. They regularly attend meetings around the state of professional business associations and groups, and talk with the range of CEOs and managers about business concerns. Wisconsin's Governor Thompson says he has learned about the benefits of trading with Mexico by visiting factories of Oshkosh Truck, Metal Ware, Oscar Mayer, and other firms in his state that export south of the border.

Most governors also are closely associated with their economic development offices, which in turn are in close contact with the exporting companies in their states. This working relationship brings most governors in regular contact with businesses that are becoming more dependent on exports and strategic alliances across national

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WISCONSIN GOVERNOR TOMMY THOMPSON ON NAFTA:

From a speech to businessmen in West Middleton, Wisconsin on March 22, 1993.

My message to you today is simple: NAFTA is good for Wisconsin.

...

The reason why NAFTA is good for Wisconsin is because it will only enhance our already strong economy.

Wisconsin has already benefitted from the U.S.–Canada Free Trade Agreement. Since 1989—when the CFTA was implemented—Wisconsin exports to Canada have increased from $1.4 billion to almost $2 billion.

Our exports to Mexico have also grown. On average, Wisconsin exports to Mexico have been growing at an average rate of 39 percent a year. In one year alone, exports jumped 83 percent!

As a whole, the economic impact of trade with Canada and Mexico in Wisconsin is considerable:

- Wisconsin exports to Mexico totaled $250 million in 1991. Exports to Canada totaled $1.9 *billion.*
- Canada is our number-one export market. Mexico is our sixth-largest market.
- In 1991, exports to Mexico generated 7,400 jobs in Wisconsin. Exports to Canada generated 57,000 jobs. That's a total of over 64,000 jobs!
- Since 1987, 8,500 *new* jobs have been created by increased exports to Canada and Mexico. Wisconsin jobs related to trade in Mexico alone has increased almost seven times in the last four years.
- And these export-related jobs are good jobs ... among the highest-paying jobs in the state.

And NAFTA will increase investment and job opportunities here in Wisconsin. Our export market to Canada—as I have already stated—is very strong ... and we are continually working to make it even stronger. Where Wisconsin stands to gain the most from NAFTA is from increased trade opportunities with Mexico.

That's why I led a trade mission there at the end of last year ... the largest and most successful trade mission of my administration. In the five short days of the mission, Wisconsin companies were able to lay the groundwork for promising business deals ... in everything from milking and farm equipment to Christmas trees.

One businessman on the trip said afterward: "It changed the whole spectrum of plans I had for the future. I'm going to have to change my strategic planning for the next five years to include Mexican business."

Another business owner from Manitowoc went on the trip simply to explore export possibilities ... but he soon found solid sales opportunities. "It looks like I'll have to go back down there" to negotiate deals, he said.

And I am convinced that a Wisconsin trade office in Mexico will enhance our trading position ... which is why I asked for one in my budget this year.

NAFTA will open and expand the Mexican market. And this translates into opportunity for Wisconsin.

Our strong manufacturing base provides great export opportunities.

Miller Brewing Company, for example, expects the beer market in Mexico to continue to grow. Wisconsin companies such as Ambrosia Chocolate ... S.C. Johnson and Company ... Kimberly-Clark ... and Land's End ... all stand to gain.

Our agricultural sector will also benefit. NAFTA is expected to increase U.S. agricultural exports to Mexico by $1.5 to $2 billion over the next 15 years.

- Exports of U.S. milk powder are expected to grow by about 20,000 metric tons.
- Mexican demand for beef, pork, corn, and wheat are also expected to increase.
- Demand for food-processing equipment and agricultural chemicals are also expected to grow. All of this means opportunity for Wisconsin.

As the Mexican infrastructure develops, demand for products from our big industrial employers will grow ... companies such as Allen-Bradley, Allis Chalmers, Briggs and Stratton, Kohler, and Ladish.

Wisconsin's numerous auto parts producers—companies such as International Stamping or Modine Manufacturing—will benefit from increased Mexican demand for automobiles.

Increased Mexican demand for pollution control equipment will fuel demand for the high-tech products of such Wisconsin firms as Tec Systems or Nicolet Instruments.

And all of these increased business opportunities will translate into one thing: more jobs for Wisconsin.

And—as I said before—these are high-paying jobs. For example, in 1991 the average hourly wage for workers in industrial machinery and computers was $12.88 ... for workers in publishing and printing, $12.07 ... and for workers in transportation equipment, $15.14.

Through my work with the National Governors' Association—most particularly as the head of the Intergovernmental Policy Action Committee on Trade—I know that NAFTA will greatly benefit the United States as a whole.

As governor, of course, my main concern is how it will benefit us here at home.

As I said at the beginning ... NAFTA is good for Wisconsin. And I am asking all of you today to help us get NAFTA passed. It is good for your businesses.... It's good for Wisconsin ... and it's good for the U.S. ☎

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borders in order to remain competitive.

Over the past five years, most state development offices have sponsored trade delegations to Mexico by businesses in their states. Often, governors have led these delegations, and thus have gained direct experience with both Mexico and the reactions of their businessmen. Governor Thompson of Wisconsin reported after his visit to Mexico last year that businesses on his delegation were overwhelmed by the opportunities they encountered and were scrambling to take advantage of them. Governor Roy Romer of Colorado proudly claims that his office is sending trade delegations to Mexico on a monthly basis.

By contrast, relatively few congressmen even have traveled to Mexico, other than as tourists, and fewer still in the company of businessmen. As a result, there is little appreciation of the business opportunities that NAFTA would create and of the enthusiasm of the businessmen themselves.

Laying Foundations for New Industries

The governors also have learned from first-hand evidence that it is the small and medium-sized businesses that generate most new jobs and that are laying the foundation of the new, high-tech industries. These firms for the most part have more contact with their governors than they do with their senators and representatives in Washington.

Saniserve Corporation is a typical example of the importance of Mexico for medium-sized businesses. Based in Indianapolis, Saniserve employs 130 people. Last year Saniserve sold $490,000 worth of equipment to Mexico, and expects sales to increase to $650,000 this year. According to Saniserv's CEO Gabriel Aguirre, 17 of his employees would lose their jobs if not for exports to Mexico. Says Aguirre, "If this continues I know I'll have to hire more people." Aguirre plans to increase plant capacity in Indianapolis to keep up with growing exports to Mexico.

On a smaller scale, Air Hydraulics Incorporated, based in Jackson, Michigan, employs 17 workers in the manufacture of presses and impact machines. President Michael Clark has worked closely with the Michigan state development office to increase his exports to Mexico. Says Clark, "NAFTA will make it possible for the average Mexican-owned facility to purchase machines and industrial products from the United States. Without NAFTA, only the large Mexican multinational corporations would be real prospects." Within three years Clark expects sales to Mexico to comprise 25 percent of his output. "Without NAFTA we will not have a strong export program into Mexico or Latin America. Without NAFTA we stay domestic and stagnant."

Chicago-based Summit Industries has increased exports to Mexico by 500 percent since 1987. But Summit, a small producer of X-ray machines, cannot afford to lobby Washington continually to ensure that its interests are protected. Similarly, Snider Mold Company has a plant in Mequon, Wisconsin that employs 45 people in high-paying jobs manufacturing moldings. Snider has tripled in size in the past six years, due in large part to increases in exports to Mexico (today 25 percent of their products head south to Mexico). At present, Snider faces a 20-percent Mexican tariff, which NAFTA will eliminate and allow them to increase their sales further. But Snider has little clout in Washington, along with the tens of thousands of other small and medium-sized businesses like it whose muted voices in Congress are drowned out easily by the clamor of the professional lobbyists. Thus, it is not surprising that the strong support of NAFTA by this crucial sector of the U.S. economy plays so little role in the congressional deliberations.

Capitol Hill Opposition

Senator Bill Bradley of New Jersey has termed the passage of NAFTA President Clinton's "most important foreign policy priority." This centerpiece of U.S. policy toward Latin America and international trade, however, has encountered tough and increasing opposition on Capitol Hill. There, a panoply of interest groups opposed to free trade—labor unions, environmental organizations, and activists on the political left—have mounted an aggressive, no-holds-barred campaign to defeat the agreement or alter it so radically as to erect new and imposing barriers to U.S.–Mexico trade.

Congressmen are free riders on a state's economy in a way that its governor cannot be.

Against these protectionists stand America's governors, Democrats as well as Republicans, who have experienced first hand the powerful impact of Mexico's opening markets on their states' economies, and want more of the same as soon as possible. More attentive to, and informed about, their states' welfare than any Washington representative could be, their attitude toward congressional opponents is one of frustration and mystification. Individual congressmen will not suffer from the jobs and opportunities lost from NAFTA's defeat, but many individuals in their states certainly will, as will the governors whose political fortunes track closely the economic health of their states.

NAFTA has not been defeated yet; there is ample time for the broad public in every state to organize and insist that those in Washington who are pledged to represent them act to ensure the agreement's implementation. To the governors has fallen a key responsibility for articulating and leading that effort. For NAFTA's sinking fortunes raise troubling questions about whose interests Congress actually is representing and who really speaks for the national interest. ☎

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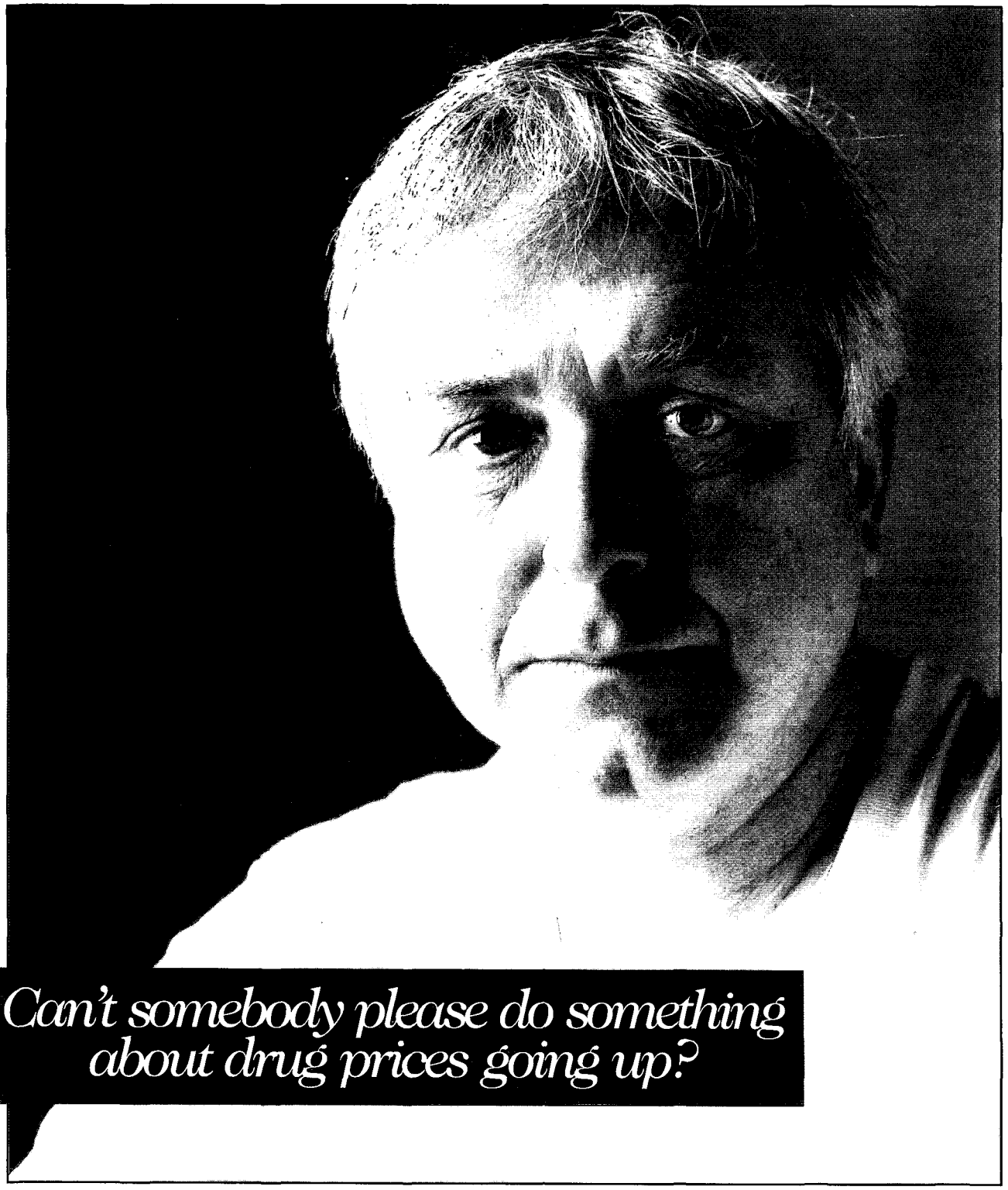

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City Lights

America's Boldest Mayors

William D. Eggers

There's not much good news coming out of America's big cities these days. The streets resemble war zones. Racial tensions are worsening, bridges and sewer pipes are crumbling, basic services are deteriorating—and city spending and taxes keep rising. "Many cities, once mighty financial and manufacturing centers, are becoming hollow cores of poverty and crime," says Stephen Moore, an economist with the Joint Economic Committee of Congress.

For decades, millions of city dwellers have responded to these conditions by moving to safer, cleaner, and lower-taxed suburbs. In 15 of the nation's 25 largest cities, population has fallen by 4 million since 1965—while the U.S. population has increased by 60 million. A little under one-quarter of Americans now live in central cities, down from 37 percent in 1960. Businesses have followed the middle-class stampede away from central cities, transforming former bedroom communities into "edge cities," huge commercial and retail centers where glimmering office buildings and fancy hotels stand beside middle-class subdivisions. Two-thirds of America's job growth between 1960 and 1980 occurred in the suburbs.

Even as the population has declined in many of America's big cities, city budgets have mushroomed. Per-capita city-government spending has more than doubled in real terms in the last 32 years. According to a study by the Washington-based Cato Institute, city governments grew most rapidly in the cities where the population fell the most. Caught in a vicious cycle of ever-increasing taxes and ever-diminishing tax bases, population nose-dived by 37 percent between 1960 and 1990 in the highest-spending cities. In the worst shape are the once-vigorous industrial centers of the Midwest and Northeast. Since 1950, the population in St. Louis has tumbled by over 50 percent, while in Detroit and Cleveland it has dropped by more than 40 percent.

For years, big-city mayors have blamed the ills of cities on the federal government's purported "shameless neglect" during the 1980s. The mayors tell the media and their constituents that Ronald Reagan and his cuts to local government are responsible for the doomed cities, but they should know better. Since 1965, Washington has spent approximately $2.5 trillion on aid to cities and on inner-city residents in the War on Poverty. Despite the equivalent of 25 Marshall Plans, the conditions of cities have deteriorated.

Yet at a time when the plight of cities seems nearly hopeless, three new-style, big-city mayors have emerged who believe most of the answers to city problems begin at home, not in Washington. These mayors—Philadelphia's Edward Rendell, Indianapolis's Stephen Goldsmith, and Milwaukee's John Norquist—desperately are trying to reverse the flow of families and businesses from their cities. Their ideas merit the attention of mayors across America.

The Philadelphia Fighter

For most of its history, Philadelphia was an attractive city to live and work in. Thanks to inexpensive row houses, the City of Brotherly Love was the nation's leader in working-class home ownership. Crime was low in tightly knit ethnic and middle-class black neighborhoods. Central High School and Girls High School were among the best big-city public schools in America.

Over the past 30 years, however, Philadelphia has been a prime example of city mismanagement and urban decay. In 1984, the police department burned down two blocks when trying to evict the radical MOVE cult. Sidewalks were so filthy a few years back that the *Philadelphia Daily News* published a regular column under the pseudonym, the "Marquis of Debris." During the past 20 years, a fifth of the city's population has fled as crime has skyrocketed, schools have degenerated, and city finances have hurtled out of control.

City Hall in Philadelphia long had been famous for corruption and patronage. "The history of the city of Philadelphia is a history of bad government," says Fred Voight, who directs a government watchdog group called the Committee of Seventy. "In the 300-odd years of the city's history, we've had about eight years of good government." Despite this, for most of that time City Hall lived within its means and did not pose an undue burden on

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Philadelphia residents and businesses.

Not so in the 1970s, 1980s, and 1990s, as never-ending budget shortfalls have been resolved by raising taxes and relying on state and federal aid. After a decade of teetering on the edge of fiscal catastrophe, Philadelphia hit rock bottom in 1991. The City Council turned down a proposed 20th tax increase. The bond rating fell below junk status. Pension and vendor payments were suspended and city workers were unsure of receiving their next paycheck. *City & State* magazine rated the City of Brotherly Love last among the 50 largest cities in terms of fiscal health and called it "the city that has set the standard for fiscal distress."

Although Washington has spent the equivalent of 25 Marshall Plans, the conditions of cities have deteriorated.

Then came the election of Edward Rendell in 1991. A Democrat and native New Yorker, Mr. Rendell, Philadelphia's former district attorney, ran a campaign to the right of his Republican opponent and handily won the mayoral race on a platform that promised pain and cuts in government. This was quite a change for a man who, for most of his political life, was a classic liberal Democrat. "Ten years ago, tax-and-spend liberal would have been a fair label," admits David Cohen, the mayor's chief of staff and alter ego. "The Rendell of the 1990s, however, is not a Ted Kennedy Democrat. He recognizes that government can't be all things to all people all the time."

Inheriting a Fiscal Disaster

By the time the new mayor took office in January 1992, the city had a $208-million budget shortfall—projected to rise to $1.4 billion in five years. "Rendell inherited a fiscal disaster of a magnitude not seen in the city since 1931," maintains the Committee of Seventy's Fred Voight.

Previous mayors faced deficits by raising taxes, 19 times during the 1980s alone. By 1991, the city's tax burden on the average family was the highest among all east-coast cities and twice as high as in Philadelphia suburbs. Businesses also were socked with high taxes: the typical mom-and-pop store paid twice the taxes of its suburban counterpart.

Mr. Rendell realized that this pattern of tax increases had to end before Philadelphia's remaining taxpayers followed what had become an annual migration to the suburbs. So he took tax increases off the table. He pointed out that despite nearly two tax increases a year in the 1980s, tax revenues, in terms of purchasing power, did not grow. Why? With each tax increase, more and more taxpayers fled the city; 20 percent of the population was lost in the past 20 years. Only the poor were staying. A 1987 study by the Wharton School at the University of Pennsylvania estimated that up to 130,000 Philadelphia jobs were lost just due to the differential in wage taxes in the city and surrounding communities. "If people could have sold their homes, three years ago there would have been a mass exodus from the city," says life-long resident Jack Adler.

Also rejected for closing the budget gap were across-the-board spending cuts, viewed merely as a quick fix that would do nothing to solve the structural problems of Philadelphia's government. This left only one choice available—to cut the actual costs of government.

Standing Up to the Unions

Philadelphia's per-capita operating budget rose by 30 percent in the 1980s, after adjusting for inflation, according to the American Legislative Exchange Council. The major culprit was the rapid expansion of public employee wages and benefits, which account for over half of the city budget. A 1991 report by the Pennsylvania Economy League found that city clerks and typists were paid 50 to 70 percent more than their private-sector counterparts in the area. City security guards were paid over 80 percent more than private ones.

The basic public-employee benefits package made even the Scandinavian-model welfare states look Scrooge-like in comparison. Entry-level workers in Philadelphia received 52 days off each year. Leave time alone cost the city $75 million on regular and holiday overtime pay in 1991. In almost every area—holidays, pay, and health care—the city's benefits packages were higher than all other American cities.

City work rules added other costs: firing employees had become virtually impossible; employees could not be required to work overtime or do any work under their job-level classification; contracting out most services was prohibited; and volunteers could not be used if they displaced any city workers.

Some of the work rules sounded like bad jokes. Take the so-called "touch and feel" requirements in the Department of Public Works. Sludge first had to be scooped from the water pipes into trucks, then unloaded onto the ground, and then shoveled into another truck. Result: it took 10 people to transfer sludge from the city's water pipes to a dumptruck. At the Department of Human Services, program analysts and supervisors had refused to use computers for word-processing or spreadsheet operations because using a computer was not in the job description.

To cut the costs of city government, Mayor Rendell knew he had to go after the extravagant wage and benefit packages and work rules. He also knew he had to play hardball against the very powerful public-employee unions in a union town.

His confrontation came in fall 1992, when he rallied the voters of Philadelphia during a strike by public-sector unions. With the public overwhelmingly backing the mayor, the walkout lasted only 16 hours, and Mr. Rendell and the city's taxpayers emerged the clear winners. He was able to win $353 million in wage concessions from the unions over four years, including a two-year pay

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freeze with only slight increases in 1995 and 1996 (2 percent and 3 percent respectively). Vacation days were cut, as was the city's monthly contribution to the employees' health packages, saving $70 million a year. The mayor also won the right to lay off employees and contract out services, and he eliminated many of the absurd work rules.

Are there any lessons here for other cities paralyzed by strong unions? Mayor Rendell's 81-percent popularity rating after the strike demonstrates that the "population of this city," says Mr. Cohen, "cares more about fiscal stability and sanity than they do about giving generous benefits to the municipal workforce."

Management and Productivity Improvements

Mayor Rendell also has enlisted private-sector help—at no cost to taxpayers—in improving city services. Soon after taking office he created the Mayor's Private Sector Task Force on Management and Productivity, composed of 41 CEOs from Philadelphia corporations and over 300 other business executives. Their job is to take a microscope to city operations and design ways to save money, increase productivity, streamline government, and deliver better-quality services.

The task force, along with city officials, has identified over 200 cost-saving management and productivity initiatives. They run the gambit, from eliminating 600 traffic signals and replacing them with stop signs to streamlining and modernizing the city's computer information system. Other projects include centralizing fleet maintenance, contracting out some repair work, and eliminating duplication of services by different city departments. Sexy? No, but these changes are saving the city $150 million in the first 15 months alone, according to Mr. Cohen. Meanwhile, about 1,300 positions have been eliminated from the city payroll, and employees who remain are being shifted to high-priority duties. Although the number of police officers was cut by 200 last year, for instance, the city put 100 more police officers on the street.

Turning to Privatization

Increasing productivity, however, can go only so far in a monopolistic organization with no competitors. Mayor Rendell also is gradually privatizing city services and facilities through competitive bidding. Six services have been privatized so far, including janitorial work in city hall, art museum guards, two trash transfer stations, and maintenance of a local expressway—all for a one-year savings of $18 million. Another 38 privatization candidates have been identified, including the city print shop, the city's nursing home, and one of the district health centers.

According to Linda Morrison, who administers the city's competitive contracting program, cost savings from putting services out to bid average 40 to 50 percent. Moreover, the threat of privatization is having a ripple effect across city government: to stave off privatization, in-house units are quickly discovering ways to trim costs by 20 to 30 percent. "Savings that weren't possible before suddenly materialize once you put a service out to bid," says Ms. Morrison.

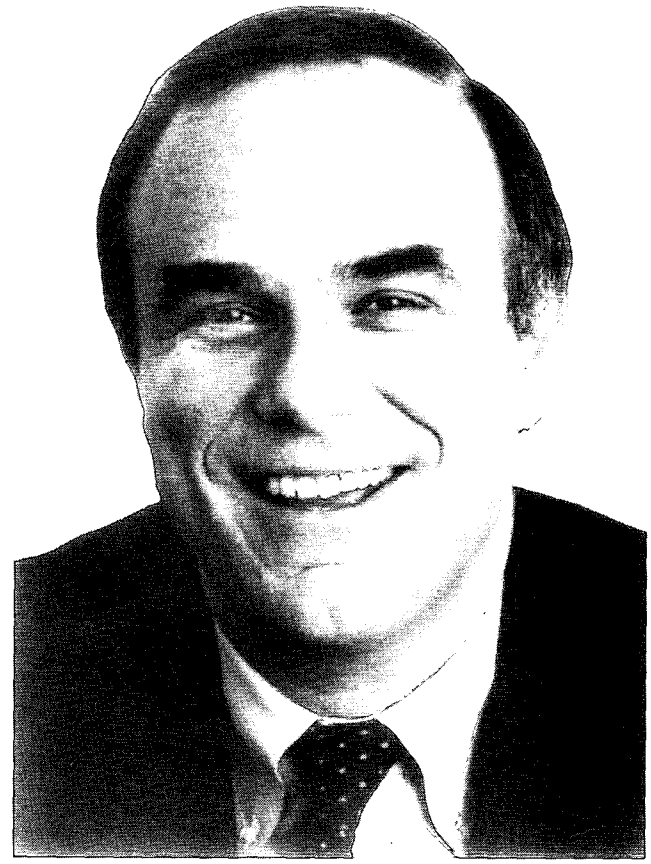

Photo courtesy of Mayor Edward Rendell

Mayor Edward Rendell 's popularity soared when he won wage and benefit concessions from Philadelphia city workers.

The mayor also is privatizing the city's parking garages by leasing them to private operators; outright sales will come later when the real estate market improves. This demonstrates political courage. Called "a cesspool of political patronage" by one city employee, the city parking authority is a major employer of politically connected Democrats.

While Mayor Rendell's first-year results are impressive, he needs three more years like it to turn the city around. Moreover, he has no effective management system in place to insure that productivity and cost-saving measures do not fall prey to the bureaucracy. Advises one private-sector task-force member, "The effort will never truly be successful until every commissioner and every department head buys into the changes and is held accountable." Mayor Rendell has been able to hold the line on city taxes, but he will have to lower them if he is to make Philadelphia more attractive to businesses and families.

The Neighborhood Mayor

Milwaukee is famous not only for beer but for a welfare-state tradition that originates in the city's German, Scandinavian, and East European heritage. Its citizens long have had great confidence in government's ability to do good: many of Milwaukee's mayors this century explicitly have called themselves socialists.

By the mid-1980s, however, Milwaukee appeared ready for a change. Big and generous government had not come without a price tag—high taxes and a welfare

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system associated with high crime, family breakdown, and neighborhood decay. As in other Northeastern and Midwestern cities, rising taxes, crime rates, and deteriorating schools were driving businesses and middle-income residents to the suburbs.

Milwaukee now has a Democratic mayor who is trying to wean the city's citizens from the notion that government can solve all their problems. A former state senator, John Norquist first was elected mayor in 1988, at the age of 38. Mr. Norquist had earned a reputation in the state Senate as being in the left wing of the Democratic Party. According to one longtime observer of state politics, "If there was a bill to declare Managua the sister city of Milwaukee, Mr. Norquist was always out front."

Milwaukee Mayor John Norquist calls money from Washington "the gift that stops giving."

However, Mayor Norquist has become much more skeptical of big government. While still liberal on social and environmental issues, he now advocates free trade and school choice, and calls for abolishing the welfare system. He calls money from Washington "the gift that stops giving" and says there are "a lot of federal programs for cities out there of dubious nature."

With the motto, "You can't build a city on pity," Mr. Norquist set about dealing with each of the city's major problems. To keep down the cost of living in the city, Mayor Norquist has cut property tax rates in each of his five years in office. The actual tax bill for most property owners has stayed about the same, or even increased for some, because assessments have risen. Without the rate cuts, however, taxes would have been $25 million higher. He successfully opposed a $366-million spending referendum for schools, arguing that higher property taxes would force more people out of the city.

Measuring Outcomes Instead of Inputs

Mayor Norquist also is keeping Milwaukee's spending growth below the rate of inflation. He is doing this in part by setting up a new budget process.

In the private sector, managers are given performance tests and rewarded for increasing productivity. In government, the budgeting process often rewards managers for "growing" their departments. All too often the system rewards the poorest performers: if crime goes up, the police get more money; if the kids cannot read and write, the schools get more money.

Milwaukee's new budget system requires department managers to submit strategic objectives, and managers are held accountable for achieving these outcomes. Department managers must identify their core businesses and ask the questions successful private companies ask every day. Does this city service meet one of our priority objectives? And if not, should we stop performing the service altogether?

"We're trying to use market forces to generate improvement rather than set up a whole system of rules and regulations," explains City Budget Director Anne Brooker. "By holding department managers accountable for outcomes we are generating pressures from the departments themselves to do away with inefficient city practices."

The police department, for example, decided that unlocking car doors for people who had locked themselves out of their cars was not part of its mission, and wasted valuable police time. Now, people who call the police for such assistance are given the phone numbers of local locksmiths. By becoming more efficient, the fire department eliminated two ladder companies without reducing its capability to respond quickly to fires.

City departments now are allowed to purchase computer services, rent vehicles, or contract out for other services from private firms. As a result, the city has cut costs, and the increased competition has spurred some internal departments to operate more like businesses.

Safer and More Prosperous Neighborhoods

Mayor Norquist also recognizes the important role that strong, safe neighborhoods play in maintaining the viability of cities; it is the cornerstone of his approach to *governing*.

To create economic opportunity in low-income areas, Mr. Norquist has put in place a host of empowerment programs: tenant management of public housing, enterprise zones, and working with community organizations to set up incubators for small businesses in depressed areas. Moreover, most building rehabilitation, social and recreational services, and 50 percent of Federal Community Block Grant money are contracted out directly to community organizations. "We believe [the city] shouldn't be doing things that others do better. Neighborhood organizations can respond more sensitively to the needs of donors and clients than we can," says Leo Reiss, the director of Housing and Neighborhood Development.

Mayor Norquist argues that the current public school system should be scrapped.

The mayor also understands that for neighborhoods to thrive economically and socially, they must be safe. But ridding a neighborhood of crime cannot be accomplished by the police alone—it requires strong community involvement. So, as in many other cities, the police department is experimenting with community-based policing. One of its more innovative community policing programs is training landlords to better screen

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potential renters.

The important role that landlords play in keeping a neighborhood strong and safe is well understood by police officers, but often overlooked by policymakers and the courts. Historically, landlords in low-income, working-class neighborhoods adhered to the neighborhood's set of norms and refused to rent to individuals who, in the landlord's judgement, might be a negative force in the neighborhood. Landlords, for economic reasons, desire essentially the same thing as neighbors do for social reasons: responsible and conscientious tenants who will maintain their property.

Over the past 25 years, civil rights laws, government regulations, and court rulings intended to prevent racial discrimination unwittingly have made it difficult for landlords to turn away prospective renters or to boot tenants out of their apartments. The result: solid working-class neighborhoods have been ripped apart by a rented house down the street turned into a crack house.

Almost by accident, Milwaukee has devised a simple, yet potentially very effective way to fix this problem. Marty Collins, a 15-year city employee, was looking for a way to improve the city's drug addiction-prevention program. Knowing that most drug-dealing in Milwaukee occurs out of rental properties, he reasoned that the only people who really can control the situation are the landlords.

Mr. Collins surveyed Milwaukee landlords and found that 70 percent reported having had destructive tenants at some point, yet virtually no landlords were using tenant screening techniques. Many of these landlords were unaware that various legal means allow them to screen out potentially destructive tenants. Just requiring a favorable recommendation from two former landlords instead of one, for example, can eliminate many undesirable renters. Other effective and legal screening techniques include credit checks and inspecting a prospective tenant's current residence.

Modeled on a successful program in Portland, Oregon, Milwaukee is teaching landlords how to screen out disruptive tenants. A training manual has been developed, and the city will conduct hundreds of training sessions for landlords over the next year.

In addition to the carrot, Milwaukee also is using the stick. After two neighborhood complaints about drugs being sold or manufactured from a rental property, undercover police will attempt to buy drugs at the residence. A successful purchase triggers a city notice to the landlord instructing him to stop the property from being used for drug-dealing. If the problem persists, the city takes the landlord to court and can ask for the property to be confiscated by the city. It almost never comes to this; 95 percent of the time, the landlords voluntarily fix the problem after the city notice.

Choosing Parents over Bureaucrats

Together with crime and taxes, education is a major cause of the flight of people and jobs from cities. It is no secret that the public school systems in America's big cities are in terrible shape. Yet big-city mayors almost universally have opposed any changes in the education system.

Photo courtesy of Mayor John Norquist

"You can't build a city on pity," is the motto of Milwaukee Mayor John Norquist.

Mayor Norquist, by contrast, argues that dramatic change is essential—that the current public school system should be scrapped. He has no real authority over Milwaukee's public schools; nevertheless, he has used his bully pulpit to support a state-funded pilot program in Milwaukee that enables low-income students to attend private schools. He wants to expand the pilot program, now serving only 600 students, to the entire city. He also has supported another voucher program—funded by the Bradley Foundation and other private institutions—that enables more than 2,000 low-income children a year to attend private schools, including religious ones.

Mayor Norquist minces no words when he describes the failure of Milwaukee's public schools: "What we have is a school-finance monopoly that is not helping public school children, is suppressing quality, is not customer-oriented, and is overly bureaucratic." It's too bad John Norquist must stand virtually alone among big-city mayors in supporting choice. Even so, inner-city students could do worse than having this 6'7" mayor in their corner.

The Visionary Mayor

To most politicians, there seems little reason to overhaul city hall in Indianapolis. The city is one of the safest among the 50 largest cities in all the major areas of violent crime. Last year, the crime rate actually dropped. Race relations are remarkably good. The public schools, while not great, are in much better shape than in cities like Chicago and Milwaukee. Indianapolis has a triple-A rating from *Moody's*—the highest possible—and thanks largely to annexation, the city's population actually has grown by about one-fourth in the past 25 years.

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But Stephen Goldsmith, Indianapolis's Republican mayor since January 1992, is not at all like most politicians nor other big-city mayors. Mr. Goldsmith is a visionary. He intends to make Indianapolis the country's first 21st-century city and, in the process, make his concept of smaller, competitive, and decentralized government the model for the nation's cities.

Like Philadelphia Mayor Rendell, Stephen Goldsmith began his political career as a district prosecutor, has been in office only a short 18 months, and quickly is acquiring a national reputation. But that is where the similarities end. While the gregarious, backslapping Edward Rendell prefers the thrill of politics to the day-to-day responsibilities of management, the more stoic Mayor Goldsmith seems more at home crafting policy innovations than in schmoozing with City Council members.

Mayor Goldsmith believes government too often displaces more important local institutions in cities, such as neighborhoods, churches, and families.

Since taking office, the workaholic mayor has embarked on the most fundamental top-to-bottom restructuring of big-city government in decades. Driving this revolution is Mr. Goldsmith's conviction that government is a monopoly, and monopolies, whether public or private, do not work very well. "A monopoly interferes with the free market and makes choices that individuals would not otherwise make," he says. "Government monopoly automatically creates inefficiency."

Moving Services into the Marketplace

To break up this monopoly, the mayor has embarked upon the most comprehensive competition and competitiveness effort of any major city in the country. To identify opportunities for opening up city government to competition from the private sector, Mayor Goldsmith created a private-sector advisory group called Service, Efficiency, and Lower Taxes for Indianapolis Commission (SELTIC) soon after taking office. The commission is comprised of nine of the city's leading entrepreneurs, who each lead a team of volunteers given jurisdiction over a major functional area of city government—including the departments of public works, parks, recreation, and transportation.

SELTIC's task is to systematically examine city services and ask some very basic questions. Is this something in which government should be involved in the first place? If so, how can we inject competition into the provision of this service? Can the private sector provide the service in a more cost-effective manner than city agencies? So far over 150 services have been identified as competition opportunities; over 40 government services already have been moved into the marketplace.

This competitive process has resulted in significant cost savings for the city. A private firm now is doing the city's microfilming for as much as 61 percent less than what it cost the city. Printing costs are as much as 47 percent lower. And chalk up another $1.8 million in savings by privatizing sewer-bill collections. Even when city units have competed against private companies and come in with lower bids, savings of at least 25 percent have occurred. Total savings from competition are at least $10 million to $20 million, according to Skipp Stitt, the lawyer who heads up the competitiveness program.

But Mr. Goldsmith is interested in more than just making city hall more efficient. He also wants to make it smaller. He firmly believes that people governed least are governed best, and he is not afraid to say so. "Doing things more efficiently is not the ultimate end of government," explains the mayor. After evaluating the value of the service, it may become clear that "government should just get out of the area."

Sounding like the CEO of a major corporation, he constantly is encouraging his department heads to focus on their core businesses, increase efficiency, and abandon activities that provide little value to the taxpayers. The public works department, for instance, decided it no longer needed its own video-production and training center. The transportation department stopped erecting fences on rideways and picking up trash on the sides of streets. The parks department got out of tree maintenance and saved $75,000.

Costs to Fill a Pothole

When Stephen Goldsmith became mayor, Indianapolis had a great credit rating and slick, four-color glossy financial reports rivaling those of *Fortune* 500 companies. But when he starting asking questions, like how much it cost to fill a pothole or to clean out the sewers, no one could tell him. Without this data, it was impossible to know whether city services were being delivered efficiently, and he could not accurately compare the costs of public sector delivery with those in the private sector.

Indianapolis has embarked on the most comprehensive competitiveness effort of any major city in the country.

So Mr. Goldsmith put in place a system called "activity-based costing" to measure the total costs of performing a service. Such costs could include material costs, supplies, equipment, overhead, and personnel costs. Activity-based costing, says Mayor Goldsmith, "is

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the door which has opened up competition and privatization."

The system has progressed the furthest in the city's transportation department under the direction of Mitch Roob, a management consultant whom the mayor lured away from a prestigious local accounting firm. He shares the mayor's zeal for applying successful business-management practices to government.

Mr. Roob relates the story of the first target of activity-based costing: filling potholes. The mayor had decided to open it to competition. The line-level union workers soon figured out what was going on, went to Mayor Goldsmith, and said, "You are going to load onto our heads the overhead costs and indirect management costs involved in filling potholes. There are 92 of us truck drivers and 32 supervisors above us," they said. "We can't compete if you are going to attribute their salaries into our costs of doing business."

The front-line union employees asked the mayor to free them from the burden of the supervisors. Mr. Goldsmith knew they were right. Despite the fact that the managers were mostly Republican patronage employees who had endorsed him in the election, while the union workers probably had opposed him, he laid off the supervisors—catching a lot of flak from the local Republican Party in the process. The city unit won the contract.

Competition and activity-based costing not only forces the government units to get better *vis-à-vis* the private sector, it also encourages healthy competition between the different government units. For instance, there are 13 city crews that seal cracks in the roads. "If it's costing your crew a lot more to patch a crack than the other crews, you're out there and exposed. You're going to hustle to get your costs down," explains Ray Wallace, a former Houston Oiler running back who now works with the city crews on estimating the cost of their services.

Rebuilding Neighborhoods from the Bottom Up

Mr. Goldsmith hammers away at the theme that government too often displaces more important local institutions such as neighborhoods, churches, and families—the social infrastructure of cities. He believes that the people in the neighborhoods know better than government how to spend their own money. "We tax somebody in a poor neighborhood, we accumulate their limited wealth, and then we hire somebody in another neighborhood—for example, a parks worker—to go back into the first neighborhood and do an inefficient service. It's not fair. It's not equitable," says the mayor. In an effort to empower neighborhoods, for example, he has proposed letting neighborhood groups and community-based businesses bid on maintaining their own neighborhood parks and sweeping their own alleys.

Mayor Goldsmith knows, however, that it is not only the social infrastructure of cities that has come unravelled over the years; the physical infrastructure also has deteriorated. Last year's Chicago flood was the most visible example of the crisis that has been looming in cities for decades. The signs of decay are everywhere: potholed streets, collapsing sewers, crumbling curbs, and precarious bridges. Why has this occurred? Politicians

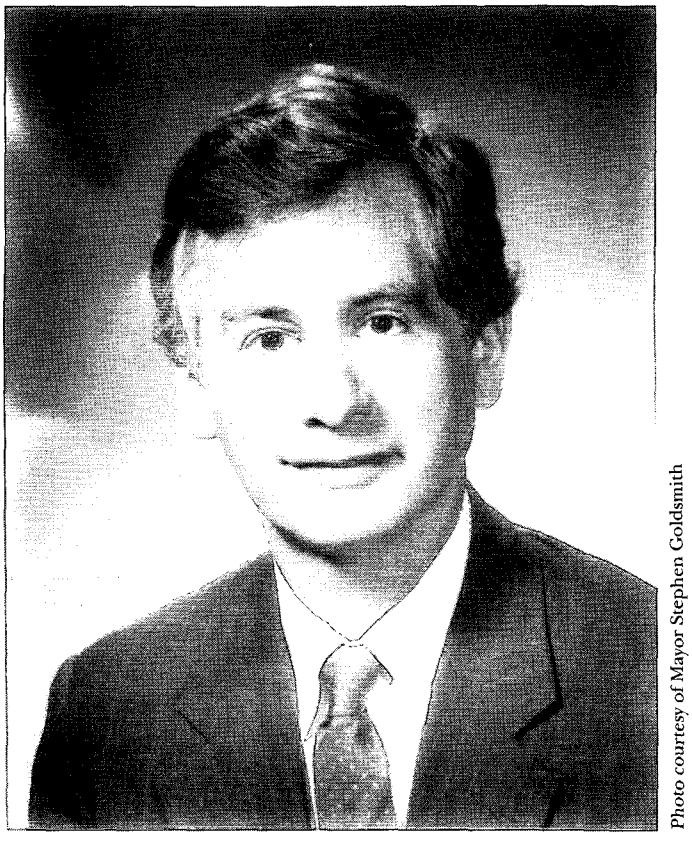

Photo courtesy of Mayor Stephen Goldsmith

When Stephen Goldsmith became mayor of Indianapolis, he asked how much it cost to fill a pothole. No one could tell him.

get credit for cutting ribbons on new projects, not for repairing existing infrastructure. The result: maintenance is deferred on things like sewer systems in order to pay for fancy new sports stadiums.

This used to be the way it was done in Indianapolis. You cannot walk a few blocks in downtown Indy without running into a new multi-million-dollar sports facility, while below you, the sewers, some over 100 years old, deteriorate. After years of neglect from previous administrations, the city's decaying sewers, streets, bridges, and parks finally are getting some attention. In order to stave off the kind of infrastructure crisis now apparent in cities like Boston and Philadelphia, Mayor Goldsmith has embarked on a three-year, half-billion-dollar program to restore the city's infrastructure—all without tax increases.

The city's projects are a far cry from the wish list of pork projects that the country's mayors submitted to Bill Clinton for his stimulus bill. You will not find any massive new road projects, light-rail boondoggles, or big, new facilities. Rather, the mayor is rebuilding the city's neighborhoods from the dirt up, literally. Existing bridges, sidewalks, roads, curbs, and sewers are being repaired both to extend the life of this infrastructure and to preserve the asset value of the city's investments. Again, Goldsmith the visionary is looking decades down the road. Says Mr. Roob, who put together much of the capital-improvement plan, "If you don't have good streets and good sewers, the chances of having an economically viable city are nil."

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Deregulating the City

While most burdensome regulations on free enterprise emanate from federal and state levels of government, local governments also are responsible for their share of barriers to enterprise and homeownership. Ever-changing municipal regulations, ranging from licensing provisions to building codes, stifle innovation and entrepreneurship in America's cities.

Like other government interventions that distort market forces, city regulations are not safe from scrutiny under the Goldsmith administration. A 12-member civilian panel, the Regulatory Study Commission, has been charged with weeding out unnecessary regulations and evaluating all newly proposed regulations on a cost-benefit basis—an Indianapolis version of former Vice President Quayle's Competitiveness Council.

The mayors' success confirms that fiscal conservatism and competition within city government can provide basic services without higher spending and new taxes.

The commission is taking a look at all kinds of regulations: development codes and standards, zoning, licensing provisions, occupancy requirements, and health and safety requirements. Leading the effort are Gene Lausch, an attorney and 25-year veteran of city government, and Tom Rose, a former Los Angeles television reporter. They have exposed all sorts of bizarre, outdated regulations. One city ordinance, for instance, required all milk cows to be licensed by the city—the rule had not been enforced since 1961. In dollar terms, the commission's largest first-year issue was forcing the Air Pollution Control Board to rethink proposed regulations that would have made the city's asbestos rules among the most burdensome in the nation. Estimated savings: $16 million to $50 million a year.

Mr. Goldsmith's deregulators know that their biggest political challenges are yet to come. They now are closely examining the possibility of deregulating taxis, and soon must look at regulatory restrictions supported by powerful and often very wealthy interests—among them development standards, signage restrictions, landscape requirements, and zoning laws. They are determined to proceed even though they expect bitter opposition.

Whatever mayors do, the communications, transportation, and information revolution of today's economy has destroyed some of the historic advantages of urban life. Fax machines, next-day cross-country package delivery, phones with video monitors, and suburban shopping malls and gourmet restaurants with plenty of parking all make it less necessary for people and businesses to remain in cities. A house in the country—or at least in the suburbs—remains the American dream for most families with children. Modern technology now makes this dream easier to achieve.

Cities, of course, still have enormous advantages of their own: the grandeur and beauty of civic buildings and public squares, world-class theaters and museums, the hustle and bustle of city streets, the neighborhoods with their rich traditions, the ability to get places by walking, and the energy and vitality of the people, many of whom are immigrants, who still come first to cities to raise families and build careers. Many cities also could become more attractive economically, as suburban taxes rise and land costs in suburbs begin to surpass those of metropolitan areas.

Cities Can Work

Yet if big cities are to escape the nightmarish, crime-ridden future like that portrayed in the post-industrial movie *Blade Runner*, conditions in them must improve dramatically. As long as the good in cities is outweighed by the bad—abysmal schools, skyrocketing crime, high taxes, bloated bureaucracies, and shoddy services—people and businesses will continue their flight.

This need not happen. In different ways, in different cities, Edward Rendell, John Norquist, and Stephen Goldsmith are demonstrating that big cities can work—if the right policies are adopted. Their success confirms that by applying a dose of fiscal conservatism and competition to city government, basic services can be provided effectively without higher spending and new taxes. They are showing the positive effects of bringing in the local business community to help cut back city hall, rather than pushing businesses away with ever-higher taxes and regulations. They are revealing how—by using markets instead of mandates and empowering neighborhoods rather than bureaucracies—problems can be overcome that once seemed unsolvable. They have learned that to reduce crime, police must be reconnected to the community, and neighborhood residents and landlords must be given the empowerment to maintain civic peace.

City dwellers across America are beginning to take notice. Running on a platform of tax cuts, school vouchers and reducing the city's workforce, Bret Schundler became Jersey City's first Republican mayor in 75 years. Mr. Schundler won the May election with 68 percent of the vote in a predominantly Democratic city. In June, Republican Richard Riordan was elected mayor of Los Angeles on a platform of privatization and more police on the street. These elections prove that voters who love urban life are recognizing that cities are too important to be left to a business-as-usual City Hall. ☎

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Notes from the Underground

America's Sprawling Informal Economy

Jeffrey Tucker

Government policies usually have unintended consequences, but one effect is literally invisible to policymakers. When regulations get too complex or costly, or taxes too high, employers, workers, and entrepreneurs sometimes move outside the official system and into what is called the "informal sector." A growing body of research suggests that the informal sector—also called the underground, unofficial, black, subterranean, or non-registered economy—is an extremely large and highly productive subsection of the economy. In it mostly legal goods and services are bought and sold in a manner that evades the government's regulatory and fiscal reach. During the presidential transition, public attention focused on the off-the-books hiring of nannies, sometimes illegal immigrants. The Zoë Baird phenomenon is but a small part of a vast subterranean economy that has grown in response to overly burdensome and arbitrary government.

The informal sector has been studied extensively by professors of anthropology, urban planning, and sociology, whose political sympathies lie with the Left. Nevertheless, their studies highlight a question that should be of interest across the ideological spectrum: Isn't something wrong when an entire segment of the population works extremely hard, possesses valuable skills, and produces goods and services people want and use, yet is shut out of the official economy? Shouldn't their activities be considered legitimate?

New York Off the Books

Professor Saskia Sassen-Koob, who teaches architectural planning at Columbia University, has studied New York City's informal sector for well over 10 years. She thinks American culture places too much emphasis on what she calls "valorized" occupations—those with a high degree of visibility to match their high wage levels. Professor Sassen-Koob and her graduate students are doing hands-on work interviewing informal street vendors, car repairmen, cab drivers, and others employed in the informal economy all over New York.

The researchers have found substantial informal activity throughout the apparel industry, general construction, masonry, stonework, plastering, toys, sporting goods, and electronics. They found unlicensed or unregistered work in most of the 40 standard industrial classification sectors they examined. Concentrating mainly on new immigrant communities in New York, they found an extremely diversified informal economy among Hispanic, Chinese, Koreans, and Russian immigrants in Brighton Beach.

In many areas of Queens (Jackson Heights, Ridgewood, and Astoria) and in Brooklyn (Sunset Park and Williamsburgh), skilled cabinetmakers produce customized furniture for a high-income clientele and basic furniture for lower-income residents. Many of the furniture shops are located on the second floor of buildings, since the first floors must adhere to enforced zoning codes, making them available only for other uses.

Professor Sassen-Koob and her researchers estimate that in one four-block survey in Manhattan, 90 percent of all interior work was done without required permits and licenses. In government-funded projects, on the other hand, the official sector dominates. But in those public sector projects using subcontractors, growing numbers of informal workers are involved, as indicated by the increased number of labor violations recorded by the Department of Buildings. These are the "fly-by-night" operations often denounced in the press.

Sometimes it takes an accident and follow-up investigation to reveal informality. One such case occurred in the early 1980s when a crane operator dropped a block of cement and nearly crushed a passerby. The newspapers were outraged to discover that he was unlicensed, and a follow-up showed an unexpectedly high incidence of people working without licenses.

Clothing is one of the most important informal industries. Professor Sassen-Koob has discovered that most production workers in the apparel industry in New York and New Jersey do unregistered work in "sweatshops" and at home and sell their product to registered New York firms. These sweatshops are located Chinatown and throughout Manhattan, and in Brooklyn, Queens, and

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AP/Wide World

Unlicensed street vendors help form part of a broad underground economy in New York.

suburban New Jersey. And although New York's official footwear industry has been in decline for a decade, at least 10 percent of the industry has gone informal, with spinoffs in handbags and other leather goods.

Some types of informal work pay well. For example, freelance designers often convert their lofts in lower Manhattan, hire immigrant workers to come to their homes, and work completely off the books. In other cases, middle-class women do finishing work on expensive garments with special equipment that the women buy themselves.

Large electronic firms that employ union labor have been on the decline for some time in New York. They are being replaced by informal arrangements of contractors working out of the garages and basements in middle-class residential neighborhoods. Not only is this more convenient for the workers themselves, they offer, according to Professor Sassen-Koob, "greater efficiency, quality, and speed."

Transportation services may be the largest source of informal employment in New York. Professor Sassen-Koob reports that "there are now twice as many gypsy cabs as there are licensed taxi cabs." The huge number of informal vans form a network that makes up a mass transportation system. The official system doesn't serve as many areas, is not as safe, and sometimes requires several transfers. The informal system gets around all these problems, as well as offering air conditioning and pleasant music.

Hundreds of auto-repair shops and body shops have sprung up in immigrant neighborhoods. One shop in Brooklyn handles 100 cars per day, far exceeding local demand, and suggesting that people come from all over the city to purchase informal car-repair services.

As would be expected, the incidence of informality in New York tends to be higher in industries that have a heavier tax burden and higher unemployment rate. The heavier the burden of outside intervention, the more the incentive to escape. It is the main reason high-price informal jewelry and fur shops have sprung up. Consumers like the high quality, low prices, and convenience, and producers have much greater flexibility in adjusting to consumer taste. There are no legal barriers to entry, which allows fast entry and exit.

Miami Vice

Miami is no less a haven for informalism. Professor Alex Stepick, of the University of Miami, has studied this area closely, especially with regard to Haitian immigration. He believes that racism locks Haitians out of the official economic system. His concern led him to look more closely at the Haitian and Cuban immigrants' primary source of work and income. Overwhelmingly it is the informal sector that plays a large role in incorporating new arrivals into the division of labor. About one-third of new Cuban immigrants in the early 1980s

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worked in the informal sector.

As in New York, the labor code is one of the main reasons businesses and their employees go underground. Laws that mandate age requirements, work hours, and minimum wage have no relevance for people who are trying to provide for their families and can do so by working hard. These people will gladly take jobs, even if the hiring and firing is done outside the law. In the early 1980s, many large formal firms that employed union workers went out of business. But the formal firms employing informal workers, and the other firms that are completely underground, survived, and even grew. When the U.S. Department of Labor ran a sting operation against Miami's garment industry, they found labor-law violations in 132 firms and mandated back pay to 5,000 workers.

According to Stepick, Miami unions did not accept Cuban members until the mid-1970s, which led the Cubans to create their own firms, with separate labor markets, and to compete for housing contracts on a cash-only basis. When the 1973 recession hurt the formal firms, the informal firms in the garment industry paid less in wages, but managed to survive the recession.

Racism was less of a problem in the restaurant business in the early days of immigration, says Stepick, but Haitians and Cubans worked out of sight of the customers cooking and washing dishes. It is only because restaurants violated health, safety, and labor codes that they could employ so many. Today, many of the same workers own their own informal firms in immigrant neighborhoods.

The existence of the informal sector should be seen as a failing of the government, not the market.

So regulated is our nation's child-care industry that it is not surprising that informal provision has exploded. Stepick argues that the houses spilling over with children in Miami's Little Haiti are daycare operations, charging $2 to $5 per day. Most of their clients are poor and could not afford what he calls "state-sanctioned" care. If the informals were shut down, there would be nowhere to put the children.

Mom and Apple Pie

The growth of the informal economy in cities like New York and Miami is partly linked to the growth of illegal immigration. But informalism is widespread as well in neighborhoods without many immigrants. The informal economy is as American as mom and apple pie.

Professor Michele Hoyman of the University of Missouri, St. Louis, has studied the informal economy extensively. As a feminist political scientist, her main interest is in the areas of sexual harassment and anti-discrimination laws.

Professor Hoyman's research shows that many occupations nearly entirely dominated by women have very high rates of informality. For example, 84 percent of child-care workers not in private homes, and 50 percent in private homes, pay no social security tax. Similarly, 25 percent of hairdressers and cosmetologists and 50 percent of registered nurses do not pay. At least one million American women operate businesses out of their homes.

This evidence indicates that the informal sector is particularly attractive to women, but probably not because of systemic sexism in official markets, as Professor Hoyman would argue. It is because, on the whole, women are more likely to find employment in the "non-valorized" occupations that thrive in the informal sector, occupations that do not require extensive capital investment, large start-up costs, and intensive training or experience.

In reality, official firms always will be less likely to hire women than men, or pay them as well, because of the costs indirectly imposed on employers by childbirth and childrearing. The informal sector simply accommodates the scheduling demands of women better than licensed, salaried, official employment does. In addition, official business is increasingly saddled with the requirements of mandated benefits like family leave, the costs of hiring women will continue to grow, which in turn pushes them out of formal and into informal work.

Everyone a Lawbreaker

The informal economy is as capitalistic as the formal economy, for it involves entrepreneurship, trade, saving, working, wages, and capital, as in the formal economy. Moreover, the existence of the informal sector should be seen as a failing of government, not the market. Regulation drives people outside the official economy.

Today, nearly every industry and service, every profession, and every dollar earned are subject to some dictate from Washington. The labor code mandates that only people of a certain age can work ("child" labor laws) and that people of low marginal product cannot ("minimum wage"). Laws mandate that businesses provide a myriad of benefits to employees that are often prohibitively expensive. State and local governments have their own regulations, from zoning ordinances to rental restrictions. These interventions create conditions that sometimes make going informal more attractive than staying official.

If, for example, you buy a cheesecake your neighbor baked in her kitchen, you are probably engaging in an illegal act, depending on local and state laws. There are health and equipment regulations, and specifications for the kitchen's size. The effect is to create a monopoly for restaurants, but it is also to criminalize what seems to be a perfectly natural economic arrangement. If a family rents a room to a student, even though the area is zoned to prohibit rental use, the family becomes informal. When parents employ their underage children in the family, they break the law and qualify as informal. The same is true for the informal handyman who has no office or license. When the photographer gives a free

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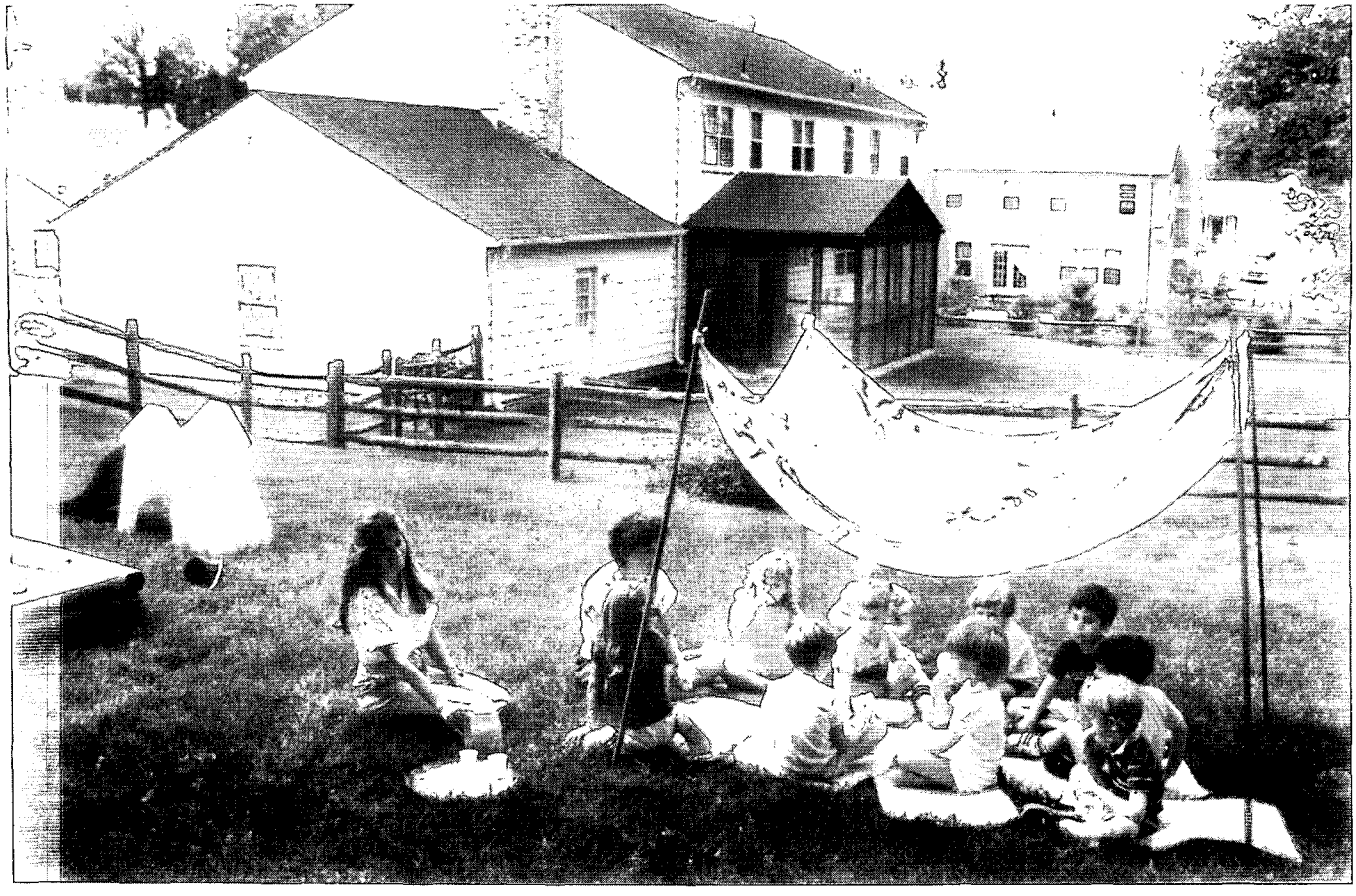

Folio

The heavily regulated daycare industry has spawned many home daycare operations.

photo session to the family of an auto body shop owner, and the *quid pro quo* is a repainted car, they enter the informal sector. Babysitting services, cab services, yard sales, and fruit stands are all part of the informal market.

Encouraging Informality

Informal business activities have common features. Labor is undeclared, and workers receive few if any of the "social benefits" found in the formal sector: unemployment insurance, health insurance, union organization, and minimum wage. Work conditions do not meet official health and safety standards. The firm's location usually falls outside normal zoning laws. Management is not bound by official standards of accounting and reporting. Many informal firms rely on cash, payment-in-kind, or bartering as methods of payment. They cannot advertise openly.

Informal sectors are not found only in cities. A study by James D. Smith, of the Survey Research Center of the University of Michigan, found that in one year, four out of five consumers purchased something from a producer in the informal sector. Consumers bought a wide variety of goods and services, from a sandwich at a street vendor's cart to building repairs on their homes or businesses. In fact, the largest sources of informalism are in the areas of home repair and food preparation. Mr. Smith estimates that as many as 15 percent of American workers are involved in some type of informalism. Informal activity may account for between 5 to 33 percent of the U.S. Gross National Product.

Prostitution and illegal drugs, of course, are important markets in the informal economy. The overwhelming majority of informal activity, however, does not come from producing and selling illegal goods and services, but from producing and selling goods and services in a manner made illegal by government-created barriers. When the costs of obeying tax and regulatory rules become too high, people will find ways to improve their standard of living outside of approved channels.

When the child-care industry is regulated, for example, informals inevitably appear the next day. The more overbearing the mandated benefits on business become—as in health insurance, child care provision, and unemployment payments—the more tempting it is for entrepreneurs to decentralize and informalize. High taxes increase the benefits, and thus the prevalence, of going underground. And tax increases can cause shifts from occupations that require withholding taxes to those in which income reporting is subject to more discretion—a shift from firm-based employment to self-employment is one example.

If governments fail to change their legal structures to accommodate informals, and regulatory trends in this country continue—if the economy becomes less and less capitalistic—the informal sector will expand beyond its current scope. The growing informal economy is a testament to the resilience and ingenuity of people when confronted with governments that want to manage their economic life—and a reminder that total economic control will always be beyond government's reach.

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Yakkity-Yak, It's Coming Back

The Family Harmony of Doo-Wop Music

Mark Gerson

"I know why you're all here. You're here because you want some good, clean, non-suggestive fun!" roared Lenny Coco of the Chimes to a packed audience of 15,000 people in East Rutherford, New Jersey's Brendan Byrne Arena during a Doo-Wop concert extravaganza on December 26, 1992.

Doo-Wop is back. Thirty-five years after the music fad that marked the birth of American rock and roll, Doo-Wop, the music of the jukebox and the sock hop, is filling arenas like Madison Square Garden and Carnegie Hall. While champions of the bandstand like the Cleftones and the Channels draw halls full of reminiscing baby boomers, the music of the 1950s is also gaining in popularity with young people. Very often, the hottest attraction of Doo-Wop shows are *a cappella* groups of college-age youth, such as Vito and the Twilights and the Monels.

Although Doo-Wop's heyday was the late 1950s to early 1960s, the music has proved durable. Some of America's most recognizable songs come from this genre, including "Speedo" by the Cadillacs, "Sixteen Candles" by Johnny Maestro and the Crests, "Why Do Fools Fall in Love" by Frankie Lymon and the Teenagers, and "In the Still of the Night" by Freddy Paris and the Five Satins. The harmony in the background of many of these early hits is the phrase, "Doo-Wop," which is where the music gets its name.

While the Doo-Wop craze started around 35 years ago in New York and Philadelphia, its renaissance has spread across the country. The United In Group Harmony Association (UGHA), a New Jersey-based group dedicated to preserving and presenting Doo-Wop music, fills 18 concert halls a year, from New York to Germany. Richard Nader, the leading Doo-Wop concert promoter in America, puts on dozens of shows a year all across the country. Nader says that those who perform at and attend his concerts cover all ages and socioeconomic backgrounds because the music is so universally appealing.

Perhaps the man most directly responsible for the revival of Doo-Wop music in New York is Don K. Reed, a disc jockey at WCBS-FM, an oldies station. Reed's show, "The Doo-Wop Shop," airs every Sunday night from 7 P.M. to midnight, and is the number-one radio show in its time slot in the metropolitan area. He attributes the revival of interest in Doo-Wop to the fact that, "Doo-Wop music is fun, enjoyable, and a forgotten and original American art form. It is popular today because it helps people to remember better days." The Doo-Wop craze earned a cover story on the "Arts and Leisure" section of the *New York Times* in January 1993.

Why the burgeoning interest in Doo-Wop? The melodious vocal harmony that is the basis for Doo-Wop surely is part of its attraction, but the traditional, conservative themes in Doo-Wop lyrics may be just as important. Doo-Wop songs are full of hope, love, family, and responsibility. Playing the Edsels' "Rama Lama Ding Dong" backwards won't reveal any hidden meaning, and the Monotones' "Book of Love" does not suggest anything more provocative than a yearning for a monogamous spouse and a wholesome lifestyle. Much of today's popular music, including some rap and heavy metal, is angry and hostile. Doo-Wop music reflects the innocence of the 1950s; such artists as the Eternals and the Elegants follow in the conservative tradition of celebrating life's simple beauty and everyday pleasures with such classics as "Babalu's Wedding Day" and "Little Star."

Twilight Harmony

It is Doo-Wop's traditional themes and vocal harmony that unite those who perform in and attend Doo-Wop revival concerts. Vito Nole, the lead singer of Vito and the Twilights, a group of male vocalists in their early twenties, describes this. "The lyrics of Doo-Wop music are beautiful; they come from the heart. Today's music, more or less, comes from below the belt. In addition to the great vocal harmony, Doo-Wop is special because it is a family experience. My whole family can come to my concerts without having to worry about the elders or the kids hearing anything suggestive. The music is terrific because its happy and hopeful lyrics are enjoyed by everyone and

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Photofest

Doo-Wop, the music of the jukebox and sock hop, is back.

bring everybody together." This inclusiveness is an important aspect of Doo-Wop's growing appeal.

Vito and the Twilights is a Doo-Wop *a cappella* group from Rutgers University. The group leader, Vito, long felt he had Doo-Wop in his blood; his father was a Doo-Wop singer in his youth, and the two spent countless hours listening to and discussing Doo-Wop.

At Rutgers, Vito met Chris Serrulo, another Doo-Wop fan, and the two started singing together. They realized that they sounded good and had considerable talent. Vito figured that he and Chris could put together a group as good as the Monels, a popular Doo-Wop group their age. They responded when the opportunity struck.

Chris was in a college theater company and recruited three other students to join Vito and him in a singing group. Their first performance opened to rave reviews from a campus previously unexposed to this music.

Vito and the Twilights, as they called themselves, blossomed, and the group regularly performed in clubs and opened for Doo-Wop groups in the New York metropolitan area. The highlight of this experience came in September 1992, when they opened a major concert at the Meadowlands where such famous groups as the Students, the Five Satins, the Five Discs, and the Danleers were performing.

Such groups as Willie Winfield and the Harptones and the Cleftones spent a lot of time with Vito and the Twilights backstage, reminiscing and giving them points on their performances. The singers also got acquainted with the fans who attended the concerts. Vito says that a special bond exists among those in the Doo-Wop community, with the elders encouraging the youths to keep the music alive.

Vito maintains that the burgeoning love of Doo-Wop is emblematic of something larger in the culture. He cites the sensation of "MTV Unplugged," where viewers of music television are enthralled by music harmony like that of Doo-Wop, free of electrical accompaniment. The harmony specific to Doo-Wop also is making larger inroads, with such popular groups as Boys II Men performing remakes of standards from the 1950s.

Now, with several recordings to their credit, the group is thrilled by their success, and intend to continue performing after they graduate from college this year.

Respect for Parents

The themes of romantic love in Doo-Wop music are rarely sexually suggestive. The furthest anyone ever gets in a Doo-Wop song is kissing. Relationships in Doo-Wop are based not only on love, but on example. The lack of male responsibility today—which has contributed to the rising incidence of single parenthood, welfare, divorce, and abortion—has no place in Doo-Wop. Relationships in Doo-Wop songs are hard-earned treasures that demand respect and appreciation. Typical of these lyrics is the Doo-Wop classic that was perhaps the ultimate make-

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out song of the 1950s, "One Summer Night" by the Danleers.

> One summer night, I held you close, you and I under the moon of love/You kissed me oh so tenderly, and I knew this was love/And as I held you, oh so close, I knew no one could ever take your place.

The thrill is not so much in the physical, but in the emotional bond that is established by love.

The complete lack of sexual implication in Doo-Wop music is, paradoxically, almost shocking to the modern sensibility. Few people today would have to think twice of what is implied by the title of the Velours classic, "Tonight Could be the Night." However, what the Velours anticipate is not wild lovemaking, but the elusive possibility that, "Tonight, could be the night, when I fall in love, with someone like you." There is no confusion as to the ultimate goal of a boy when he is chasing a girl. Invariably, he wants to marry her, often when they are both still too young.

WCBS-FM's Sunday-night "Doo-Wop Shop" is the number-one radio show in New York in its time slot.

The desire to marry as a teenager provides one of the few sources of generational conflict in Doo-Wop music. Generally, the teenagers respect their parents and agree not to "talk back" as in "Yakkity-Yak" by the Coasters, and realize that they must "Get a Job," as in the Silhouettes' classic. Love and respect for parents is an important theme of Doo-Wop, as in Paul Peterson's "My Dad": "My Dad, to me, he is everything strong, he can't do anything wrong, my dad." However, when the subject of marriage comes up, parents discourage their children, as in the Miracles song "Shop Around."

But when Doo-Wop lovers do get married, they do so in a church. Religion is an important element of Doo-Wop, as seen in many song titles: "Chapel of Dreams" by the Dubs, "Chapel Bells" by the Fascinators, "You Saw Me Crying in the Chapel" by Sonny Till and the Orioles, and "Church Bells May Ring" by the Willows. While respect for religion is an integral part of songs dealing with marriage, it is also a component in songs about other topics. Some examples include the Moonglows, "Ten Commandments of Love," and "My Prayer" by the Platters.

The importance of religion to Doo-Wop music is clearly demonstrated by the song that quiets every crowd at a Doo-Wop concert. This song, "I Believe," is an old standard revived and made popular by Larry Chance and the Earls. The song—which champions religious faith and the heavenly rewards of leading a good life—has become so popular that it perennially appears on the top-five list of WCBS's top-500 rock-and-roll songs.

> I believe above the storm the smallest prayer will still be heard/I believe that someone in the great somewhere hears every word/Every time I hear a new-born baby cry, or touch a leaf, or see the sky/Then I know I believe, I BELIEVE!

The revival of Doo-Wop music alone does not signify a cultural transformation, but it may be significant that there has been an explosion of interest in an art form that glorifies traditional values. As Richard Nader says, "Music is simply a reflection of the time.... [T]he music of today has gone well beyond suggestive, and in fact incorporates blatant sexual overtones ... Doo-Wop music speaks of the way we actually communicate, or wish we could communicate."

As the booming market in Doo-Wop paraphernalia attests, this revival reaches people on a level that extends beyond appreciation of good music. Fans want Doo-Wop back not only for its great sound but for the times and ideas it represents. The music of Doo-Wop is about appreciation of simplicity, family, religion, and community—values that are not as prevalent as they have been or should be, and values that may be coming back if the Doo-Wop fans have anything to say about it. ☎

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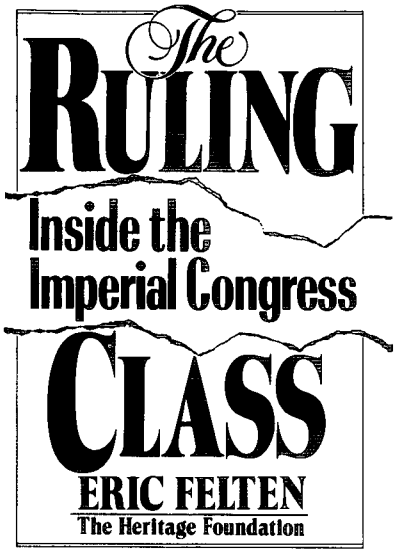

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LETTERS

Representative Dick Armey, Lawrence G. Franko, T. J. Rodgers, James Fallows, *et al.*, Lt. General Robert D. Chelberg

Industrial Policy Is Not for the United States

Dear Sir:

Congratulations to Karl Zinsmeister for his article in your Spring 1993 issue on the ineffectiveness of Japan's industrial policy ("MITI Mouse: Japan's Industrial Policy Doesn't Work"). As he points out, the Ministry of International Trade and Industry (MITI) has obstructed growth in Japan's automobile and electronics industries and wasted billions of dollars on quixotic aerospace, oil, and shipbuilding ventures.

Mr. Zinsmeister is right that Japan's impressive growth is due not to the sage guidance of bureaucrats, but to vigorous competition and an environment generally favorable to economic growth, particularly low taxes on investment, a disciplined education system, and sound family structure. But Japan's productivity remains lower than productivity in the United States because barriers to healthy competition remain in many areas of the economy, including the financial and service sectors.

Ironically, as Japan, Sweden, and the former communist bloc all move toward more open market economies, the advocates of command and control—who lauded the communist bloc, then Sweden, and now the Japanese model—wish to recreate America in MITI's image. Unfortunately, many of them live and work in the White House.

But the federal government that brought us Amtrak, the Post Office, the Department of Agriculture, and $600 toilet seats at the Pentagon will not bring America efficiency, innovation, and economic growth. Real jobs, technological advances, and cutting-edge technologies are not created by bureaucrats at the Commerce Department; they are created by genuine entrepreneurs risking their own capital. If one would like a preview of an American industrial policy in practice, he should review U.S. agricultural policy, the hallmark of which is paying farmers not to farm.

The U.S. economy remains the largest and most dynamic in the world. Higher taxes to finance more government direction will not increase the competitiveness of American companies. Instead, we need less green and red tape, legal liability and antitrust reform, and, most of all, lower taxes on capital, labor, and income.

Dick Armey
Member of Congress
Chairman,
House Republican Conference
Washington, DC

Success Despite MITI

Dear Sir:

It was a pleasure to read Karl Zinsmeister's article. At long last, someone in Washington is pointing out that the Japanese government was not and is not the main force behind Japan's global industrial success. The myth that "MITI did it" has been allowed to prevail for far too long in the United States. Mr. Zinsmeister is to be congratulated for redressing the distorted and outdated image of Japan repeated *ad nauseam* by our pro-government-intervention sorcerer's apprentices.

Perhaps one reason the MITI myth has such a hold on the conventional wisdom is that it is ever so convenient. It simultaneously consecrates the role of U.S. government bureaucrats as the primary respondents to the Japanese menace, and absolves U.S. corporate managements from the blame for their defeats. It is nonetheless a myth, as any serious study of the success (and occasional failure) of individual companies will demonstrate.

The history of Japanese firms shows, in fact, that Mr. Zinsmeister's arguments can be strengthened. Not only was the Japanese government often marginal, irrelevant, or wrong in its micro-interventions—even during, but especially after, the period of postwar reconstruction—but Japan's business enterprises were also the sources of Japanese innovation and success. It was Japan's firms, spending their own commercially oriented research-and-development money, not MITI, that developed, marketed, and conquered the world's customers for Lexus and Infiniti, the VCR, the Trinitron television tube, plain paper copiers, facsimile machines, the Walkman, miniature ball bearings, flat-panel screens, zippers, small electric motors, motorcycles, robots, and integrated circuits for consumer electronics. MITI does not manage the Marysville, Ohio or Smyrna, Tennessee auto plants. And it is a matter of quite clear historical record that such firms as Honda and Sony succeeded in spite of, not because of, "Japanese industrial policy."

Unfortunately, in the United States today, the study of "public policy" or "government" has been defined virtually to exclude the study of companies, and to produce "policy-makers" who really believe that "sectors" and "countries" compete with each other and that firms have little or nothing to do with world trade and competition. What the Japanese experience really ought to teach the United States is that one of the most important ingredients for rapid productivity and economic growth consists of firms willing and able to innovate, produce, and respond to global customer demands. It is, of course, extremely difficult to see how the anti-

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capital-formation taxation, protection, and regulatory policies—let alone the attitudes—of the new U.S. administration will do anything to help us to absorb this lesson. And "industrial policy targeting" via misguided MITI matching is hardly going to make up the difference.

Lawrence G. Franko
Author, *The Threat of Japanese Multinationals: How the West Can Respond*
Concord, MA

Pen is MITI-er

Dear Sir:

At last, "MITI Mouse" tells the truth about MITI, the supposedly unstoppable Japanese trade ministry.

During World War II, Americans also were convinced that the Mitsubishi Zero was a superior fighter and that the *Yamato* battleship could not be sunk. Both assumptions were wrong.

Today, we hear the Japanese MITI-led industrial complex is also unstoppable. But an analysis of that defeatist drivel trying to pass for leadership shows it has only two biased sources: whining CEOs looking for corporate welfare to keep their corporate jets flying, and liberal politicians who never have created a job and do not know any better.

My guess is that "MITI Mouse" will be placed in the Congressional Record by those who cherish fact and freedom once a month for the next five years.

T. J. Rodgers
President and CEO
Cypress Semiconductor
San Jose, CA

Japan: No Industrial Kamikaze

Dear Sir:

As observers who have studied Japan, the international economy, and industrial policies for a number of years, we wish to point out to your readers how slanted and misinformed is Karl Zinsmeister's article "MITI Mouse: Japan's Industrial Policy Doesn't Work" (Spring 1993), which characterizes Japanese industrial policy as an unrelieved failure. The article's misinformation content is unusually high: virtually every sentence is a misconception or an outright misstatement of facts.

Our purpose for the moment is not to argue all the consequences of the article's assumptions for U.S. economic policy. Those of us who have signed this letter represent a broad spectrum of views about Japan's policies—and about appropriate responses for the United States and Japan's other international trading partners. But we share a concern that many of the items Mr. Zinsmeister presents as "facts" about Japan are nothing of the sort.

First, Mr. Zinsmeister paints a picture of uniformly incompetent Japanese bureaucrats who have held back every industry under their supervision. He recounts, for instance, an anecdote about how the MITI in the early 1950s turned down Sony's application to buy the rights to the transistor from Western Electric. The dim-witted bureaucrats, he implies, did not recognize the potential of the technology. How could bumblers like these have guided or coordinated the Japanese "miracle"?

Virtually every sentence of Karl Zinsmeister's article is a misconception or outright misstatement of facts.
—James Fallows, *et al.*

Had Mr. Zinsmeister known more about MITI's history and its policies, he would have realized that there were other and more probable explanations for its attitude toward Sony. In those days, MITI routinely vetoed applications for imports of technology on the grounds that the price was "too high." Thus, MITI's role, among others, was to provide the Japanese buyer with a no-lose pretext to negotiate further concessions from foreign technology suppliers, who then were principally Americans.

In any case, MITI had a policy of making sure that important new technologies with global export potential were assigned as far as possible to the most competent and sophisticated Japanese companies. Sony at that time was a tiny company, untested in global operations. Because officials recognized the transistor's tremendous global potential, they undoubtedly needed some persuading that Sony was the right company to exploit such an important industrial opportunity.

Few who have studied Japan's technology-import policies doubt that the state's role was pivotal not only in ensuring that Japanese industry tapped quickly into the most advanced American and European breakthroughs, but did so at stunningly low cost. The Japanese government's principal concern at the time was to make sure that Japanese companies did not bid up technology costs against each other, and at the same time to conserve Japan's supplies of foreign exchange. As a result, MITI often required joint applications, from several companies, for the same import licenses. This strategy reduced costs and diffused technology far more effectively than could have happened without government intervention.

Statements Do Not Compute

Second, according to Mr. Zinsmeister, the Japanese computer industry has been a "disappointment." In the view of some experts, Japan's output of computers and computer-related products will pass that of the United States later this decade—not bad given that in 1971 Japan's world market share was a mere 3.4 percent, versus 92.5 percent for the United States. Bolstered by MITI's negotiating muscle, various fledgling Japanese computer companies formed alliances with American computer giants in the 1960s: Toshiba teamed up with General Electric, Mitsubishi Electric with TRW, NEC with Honeywell, and Hitachi with RCA. In each case the erstwhile Japanese pupil is now a leading player. By contrast, the American teachers long ago disappeared as independent entities or have left the industry altogether. Perhaps the most interesting "disap-

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pointment" is Fujitsu. Two decades ago, it was one-50th IBM's size. Last year, its sales reached $31 billion, half the level of IBM's.

America's current computer success stories, from Apple to Compaq to Sun, rely heavily on Japanese components. Articles like Mr. Zinsmeister's tend to dismiss these Japanese

The Japanese computer industry has not been a disappointment; its output of computers and computer-related products will pass that of the United States later this decade.

—James Fallows, *et al.*

ingredients, from RAM chips to display screens, as mere commodities, but increasingly they are commodities that no American firms can make. Perhaps the Japanese strategy of concentrating on manufacturing, rather than on design and software as many American firms are doing, will prove to be mistaken. But perhaps not. In the view of many Japanese industrialists, high-tech manufacturing will be harder for newcomers to enter and will offer better prospects for long-term economic rents, than will software or design.

Auto-Pilot Fails

Third, Mr. Zinsmeister cites MITI's attempt in the 1960s to foster mergers in the auto industry; this was a failure, he maintains, because the Japanese industry today boasts nine auto companies in "fierce competition" with each other. In fact, Mr. Zinsmeister has set up a straw man by implying that Japanese corporations are expected blindly to follow MITI diktats. Industrial policy always has been a matter of negotiation in Japan, and corporations always have been free to offer counter proposals if they felt that the government's ideas were misconceived. Indeed, one reason industrial policy so often succeeds in Japan is precisely that firms help shape the choices available to the government.

In any case, the view that Japan's nine auto companies compete atomistically with each other is an illusion. The Japanese industry has seen significant concentration since the 1960s and today is dominated by just three companies, Toyota, Nissan, and Honda. Most of the other companies have significant business or financial links with at least one of these three. Competition among the large industrial groups can be fierce, of course, but the competitive forces often are stimulated and harnessed by MITI rather than left simply to play themselves out.

Zen Components

Fourth, Mr. Zinsmeister contends that "American companies have used ... technological leapfrogging, superior manufacturing, and speedier product cycles to take back submarkets once believed to be slated for Japanese dominance. (Printers,

hard drives, and notebook and palmtop computers are examples of this.)" Great credit is due the American companies that have made a comeback in those sub-markets. But it would have been difficult for them to prosper without a decade of U.S. government pressure on Japan to eliminate, or at least moderate, some of the most onerous effects of Japan's industrial policy, including the closed domestic market, dumping of the very products Mr. Zinsmeister mentions, and cartelization of component markets.

More important, Mr. Zinsmeister's statement exemplifies a frequently encountered blind spot. Many analysts routinely count as "American" any product sold under an American label, such as Apple or Hewlett-Packard. Behind this habit of mind lies one of two assumptions: either that products with American brand names usually are made in America, or that no matter where they are made, the brand name is what matters for American economic strength.

The first assumption is wrong. Take laser printers, the area of Hewlett-Packard's great success. The core technologies in laser printers are the laser engines and the driver—that is, the operating-system software. Only the latter is made in America. According to U.S. government sources, Japan's Canon company enjoys an 80-percent market share in the engine. While American companies still dominate the software market for the printers, to the extent that they do any manufacturing, it is mainly confined to the assembly and customization of Japanese-made printers for the American market. The situation is similar with hard-disk drives and with palmtops. According to U.S. government sources, only a negligible proportion of palmtops and hard-disk drives for personal computers are made in the United States.

The other possible assumption—that sales of Apple palmtops and Seagate hard-disk drives are just as valuable for the American economy, whether they are made in Japan, Singapore, or the United States—is at least debatable. Corporations can argue that they are moving toward higher-value design and engineering niches. But they give no consideration to the powerful evidence on the other side—including the insistence of governments in Japan, South Korea, and most other industrialized countries on encouraging manufacturing within their country's borders. The great exceptions to this approach have been the United States, Canada, and, to a smaller degree, Great Britain. It cannot be just a coincidence that the American "success" stories have had so little impact on the U.S. employment base.

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Japanese Iron Men

Fifth, Mr. Zinsmeister maintains that the Japanese steel industry has been a "net drag" on Japan's national income. With 54,000 workers, Nippon Steel last year generated sales of $24 billion. By comparison, USX–U.S. Steel's 22,000 workers produced sales of $5 billion. The Japanese company therefore achieved sales per head roughly double that of the American company. Of course, many adjustments are needed to make a fully accurate assessment of relative productivity, but few who have studied the figures doubt that Japan is way ahead in steel—or that Japan's industrial policy was a crucial element in the postwar development of its steel industry. Superior productivity is a major reason why Japan's iron and steel industry is the country's second-biggest exporter, exceeded only by the automobile industry, whose success in turn has been built in part upon the quality of Japanese steel. The biggest importer of Japanese steel is the United States, and American steel mills are now heavily reliant on Japanese finance and technology. Mr. Zinsmeister says that "Over the last five years, more than 50,000 steelworkers have had to be laid off...." In fact, MITI has devoted tremendous effort to seeing that workers whom steel factories shed simply are not "laid off" but accommodated in other industries.

Boeing-san

Sixth, Mr. Zinsmeister says that "efforts to build up Japan's aircraft and aerospace industries have produced only inferior products at absurd prices." This would be a telling criticism if Japan were entering these fields for strictly economic reasons. If Japan's goal had been simply to get the most airplane for the least amount of money, its military would buy off-the-shelf models from the U.S. arsenal—rather than insisting on building U.S.-designed planes, under license, in Japanese factories—and its aerospace program would rely on low-cost rockets from Europe, the former Soviet Union, or the United States.

Why has Japan not done these things? Because its decisions about the aerospace industry involve such factors as the desire to acquire technology and concerns about national security, rather than the simple cost-per-unit of an aircraft. Airplanes are the only high-tech manufactured item in which Japan is a large net importer—but an increasing share of what Japan imports consists of components Japanese firms sold to Boeing in the first place. There is no

secret whatsoever about the Japanese government's desire to build a "purely Japanese" space-launch system, so as to avoid dependence on American rockets and satellites, or its goal of building an internationally competitive domestic aerospace industry. The result is a "failure" in Mr. Zinsmeister's one-dimensional terms, but it is manifestly sensible from the Japanese perspective.

Oriental Efficiency

Seventh, Mr. Zinsmeister asserts that "Government coddling ... has made the Japanese airline industry extremely inefficient." Japan Air Lines boasts annual revenues per employee of $359,600—versus just $138,300 at American Airlines and $143,500 at United. The Japanese industry's cost per seat-mile is high compared with the American industry's. But far from stemming from wasteful deployment of people or planes, this difference is mainly a function of Japan's much-higher wage rates and also the higher cost of such imported items as aircraft fuel. The Japanese airlines' administrative efficiency is evident in low ground-staff numbers and extremely high revenues per employee. JAL's load factor—the ratio of paying customers to seats available—is one of the world's highest. In the second half of the 1980s, for instance, JAL's load factor exceeded United's by eight percentage points—a stunning edge in an industry where a percentage point makes the difference between large profits and large losses.

Tokyo Calling

Eighth, Mr. Zinsmeister's claim that "The national telecommunications monopoly NTT ... is still two-thirds state-owned and is not lean or mean" deserves some explanation. NTT still may be less "efficient" in many respects than some of its foreign counterparts, and Japan's phone rates are generally higher than in the United States. But this simply is another example where the interest of Japanese consumers is subordinated to those of Japanese producers. The Japanese government two decades ago targeted the "knowledge-intensive" and "information" industries for protection and promotion. In hardware and services, the Japanese telecommunications industry is gaining in world competitiveness. It will become a more formidable competitor in its own right, and it will strengthen the other Japanese industries that rely on it to collect, store, move, and manage information.

The belief that Japan's industrial complex is unstoppable has two biased sources: whining CEOs looking for corporate welfare, and liberal politicians who never have created a job.

—T. J. Rodgers

Economy's Virtual Reality

Finally, Mr. Zinsmeister is simply wrong with his allegation that "Fully 9 percent of the workforce is tied up in farming," Official figures show that the statistical category of "agriculture, forestry, and fishing" accounts for just 6.7 per cent of the

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Japanese workforce. The figure for farming alone is at most two-thirds of Mr. Zinsmeister's assertion, and it has been going down steadily. It will decline more rapidly through the rest of this decade, as the average age of Japan's farmers is just under 60 years.

Does Japanese industrial policy work? When Western economists ask this question, they usually mean whether Japan has met ideal standards of allocative efficiency, as prescribed by neoclassical economic theory. That is the wrong question. The more significant questions are: first, whether the Japanese approach has succeeded on Japan's own terms, which place great emphasis on developing high-value industries inside Japan; and, second, how this policy has affected industries in other countries. Given Japan's history of national growth, which has been consistently twice the American rate throughout the 20th century, and given the ubiquity of industrial guidance laws, state-sanctioned cartels, and other symptoms of industrial policy, the burden of proof would seem to lie with those who say that industrial policy has not worked. From steel to autos to semiconductors and supercomputers, the areas of greatest trade friction between the United States and Japan in the past 20 years have been precisely in the areas that the Japanese government has targeted with its industrial policies. The evidence is overwhelming that none of them could have become so competitive so fast if the Japanese state had played no role.

Some of those who have signed this letter disagree with others about the exact power and prescience of MITI and other Japanese state institutions. None of us believes that the Japanese government in general, or MITI in particular, always succeeds. But we all agree that it is impossible to understand the Japanese economy without recognizing and understanding the way the state interacts with industries in Japan. This does not mean that Japanese techniques can be transplanted blindly to very different kinds of societies in North America or Europe. Everyone who understands the differences between Japanese and American societies sees that any attempt to impose a detailed industrial policy on the United States would require major, perhaps unacceptable, changes in America's basic economic, social, and political institutions. But this is no reason why Japan's success should be swept under the carpet, let alone characterized as a failure. To do so promotes self-delusion about America's competitive position and postpones the moment of serious discussion about economic revival.

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Karl Zinsmeister replies:

Thanks to all the signatories of the above letter for responding so abundantly to my review of national industrial policy failures in Japan. This turnout by such a big chunk of the U.S. industrial policy mafia, and the defensive nature of their argument, indicate that my critique has struck a nerve among apologists for government economic steering in Japan and elsewhere.

I recognize extensive expertise and uniform good intentions amongst my critics. The suggestion that this group represents a "broad spectrum" of views, however, is ludicrous. This is basically the officer corps of the industrial policy army.

Perhaps this group should invite a few first-rate economists and business authorities into their number and cull out some of the sociologists, lobbyists, professional protectionists, Washington lawyers and journalists, corporate favor-seekers, and Santa Monica socialists. They should be looking more at industry- and firm-specific economic research, and less at the monolithic, highly political, mythologizing of the Japan, Inc. theorists who are so heavily represented within their ranks.

In my own thinking on Japan I rely heavily on case studies of specific industries and companies carried out by scholars like Michael Porter, Peter Drucker, Ryutaro Komiya, Hideki Yamawaki, Michael Boskin, Paul Krugman, Alan Reynolds, Koji Shinjo, Allan Meltzer, Robert Solow, Daniel Okimoto, Murray Weidenbaum, and Lawrence Franko. If the

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Gang of 33 had relied more on real-world economic information, and less on the nostrums of the pro-MITI propagandizers, they would not have stumbled into so many of the sadly silly claims that fill their panicky letter—to which I now turn, item by item.

Sony and Share

Point One: The Gang of 33 provide a tortured explanation of how MITI's refusal of Sony's transistor-manufacturing proposal was actually a strategic ruse, part of a crafty collusion between MITI and Japanese businessmen to chisel even better deals with the Americans. This is a fascinating tale, but it has no relation to actual facts. Let me simply quote from Sony CEO Akio Morita's direct description of this incident: "In Japan exchange control was very strong at the time, and we needed approval from the Ministry of International Trade and Industry (MITI) to remit the initial transistor license fee of twenty-five thousand dollars out of the country. The transistor was so new, and foreign currency was so scarce in Japan, which was just then beginning to accelerate its recovery from the war, that the bureaucrats at MITI could not see the use for such a device and were not eager to grant permission.... [Sony co-founder Masaru] Ibuka was eloquent on the possible uses of this little-known device, but it took him six months to convince the bureaucrats. MITI has not been the great benefactor of the Japanese electronics industry that some critics seem to think it has."

Point Two: These paragraphs on the computer industry are a wonderful encapsulation of the bizarre unreality of so much industrial policy nattering.

The Gang of 33 intone that "in the view of some experts Japan's output of computers and computer-related products will pass that of the United States later this decade." We sure would like to see such experts named. I defy anyone to provide a list. My expert, Intel CEO Andrew Grove, speaks for almost all knowledgeable observers when he says of current Japanese computer manufacturers, "I find them a surprisingly ineffective force." Any observer with eyes to see can look around him today and note the absence of Japanese manufacturers from the industry's fastest-growing segments: the Japanese have been wiped off the desktop, their small presence in portables is shrinking, and they have

no influence in international workstation sales. American manufacturers have just hit the Japanese domestic market in force, and any nameless expert who wants to wager a month's worth of his expert salary on the proposition that Japanese computer sales worldwide are going to eclipse American levels by the year 2000 is welcome to contact me any time day or night. Please.

The Gang of 33's pairings of NEC, Hitachi, Fujitsu, *et al.* with the likes of Honeywell, RCA, and IBM is most apt. If anyone thinks that the future of computing lies with these companies and their dinosaur mainframe and closed-architecture strategies, a second month's salary stands waiting for you. NEC, Hitachi, and Fujitsu are all excellent companies. But it is a good thing for their future that each does lots of things other than building computers.

This section's choicest glimpse of all into the *zeitgeist* of the industrial policy advocate is the feckless endorsement of hardware over brainware: "The Japanese strategy of concentrating on manufacturing rather than on design and software" may "offer better prospects for long-term economic rents." About 10 years ago, we might have been able to have an argument over that, but today this is an astonishing suggestion. (Quick—bring me one more paycheck.) Did all 33 members of the Amsden-to-Zysman family sleep through the past decade's developments in computers and home electronics? They may be the last folks on the planet who still believe that hardware is the place to be. The truth is, Japanese companies are working feverishly these days to try to amend their failures in design and electronic software. And grossly overpaying for the services and products of American firms when they get discouraged.

Point Three: Industrial policy mavens can claim casually that "corporations always have been free to offer counter proposals if they felt that the government's ideas were misconceived," but the indisputable historical fact is that MITI worked very hard for many years to get Japanese manufacturers out of the car-

Superior productivity is a major reason why Japan's iron and steel industry is the country's second-biggest exporter.
—James Fallows, *et al.*

making business and can only thank its lucky stars that it failed. Soichiro Honda, for just one example, repeatedly had to defy government bureaucrats and their obstructions. MITI warned Honda that the idea of starting up a motorcycle company "bordered on insanity." In 1960, the ministry actively tried to prevent his company from expanding into automobile manufacturing. "The Japanese bureaucrats tried to block us at every turn," stated Honda in 1991. "We would have been more successful had we not had MITI." The Japanese auto industry is an excellent example of how Japanese companies

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flourished in spite of MITI, rather than because of it.

Point Four: U.S. government actions had about as much to do with the remarkable comebacks of American printer, disk-drive, and portable computer manufacturers as bullfighting has to do with agriculture—that is to say, little or nothing. In fact, U.S. government actions in the 1980s on things like flat panel displays actually hurt American manufacturers and pushed some of their production abroad. These particular rebounds are tributes to nothing but excellent technical and business decisions by a disparate group of American companies.

In the midst of this section, an extremely important concept pops into the Gangsters' argument: the admission that Japanese industrial policy has had "onerous effects." Up to this point the message has been all about what we can learn from the Japanese, why government management works, how industrial policy is a good thing. Now suddenly there are "onerous effects" that the United States has been required to defend itself against. I would like to suggest that industrial policy advocates are often very mixed up people, whose argument commonly goes like this: the Japanese are scheming, colluding, market-closing, dumping, cartelizing fiends—and, damn it, we had better become just like them.

I will return to this issue later. For now, let me point out that nowhere do I deny we have a trade problem with the Japanese, that Japanese protectionism has hurt the United States, or that strong U.S. pressure is called for to encourage the Japanese to complete their postwar transition away from mercantilism. But a consistent mind, not to mention one that understands economics, would recognize that solving Japanese trade manipulation and proselytizing for government industrial policies are worse than unrelated issues—they are contradictory. If Clyde Prestowitz and Pat Choate want squarer commerce between Japan and the United States, then the last thing they ought to be defending is government–corporate finagling. Other signatories like Robert Kuttner, Derek Shearer, and Eamonn Fingleton are more consistent. They are dirigistes who like

government economic manipulations—ranging from corporatism to socialism—whether these manipulations take place at home or abroad.

But let us return to the subject matter of criticism number four, specifically the suggestion that American manufacturers like Hewlett-Packard and Apple are now just nameplating Japanese products. This claim would be laughable if it was not so dangerous. H-P now sells close to 60 percent of all the world's new computer printers, a market it stole almost completely from Japanese manufacturers. If H-P simply is fronting Canon products you might wonder why Canon is not making those sales itself.

The reason is simple: H-P is actually building remarkable original products that no one else can make. Take the very newest H-P laser printer, just released this spring. The LaserJet 4L not only has the critical H-P software driver that, as the Gangsters allude, has taken the world by storm. It also has a brand new, H-P-originated print engine that has no corona wire. The machine has no warm-up delay, uses far less power than any competitor, has the only draft mode, which extends toner twice as far, for lasers, and has an extremely useful enhanced memory. These valuable, user-helpful, environmentally friendly features are H-P innovations, and, contrary to the misinformation above, have nothing to do with Canon.

H-P also has developed, entirely on its own, the large new market for inkjet printers. The inkjet is a great technology. I own one, made in Washington state. H-P sells its laser and inkjet printers starting at $650 and $350 respectively—the price of a lousy-to-mediocre Japanese dot-matrix printer. And the really valuable thing about the H-P printer franchise is that the company first sells the machine and then, over its lifetime, sells cartridges and supplies that bring in two-to-three times that much more revenue. This is one of the great manufacturing successes of the past decade.

I go into these specific product details only to illustrate how error-riddled my critics' knowledge of contemporary technology and business is. The claim that H-P's achievement represents "assembly and customization of Japanese-made printers for the American market" is completely and scandalously false. Anyone who could so badly misread this industry, and miss the significance of similar recent successes in things like portable computers, miniaturized disk drive manufacturing, and cellular phones, doesn't deserve to be trusted to pick out America's corporate urinals, much less to set the rules under which our international businesses should live or die.

In item four and elsewhere in my interlocutors' letter, you will see displayed a central plank of the industrial policy platform: disapproval of the current globalization of manufacturing. Globalization, tantrum or not, is a central and irreversible aspect of contemporary economics. It has many benefits. And it is happening in every country.

If you buy a Toshiba laptop today, it will have an Intel microprocessor manufactured in California or New Mexico as its functional heart. Its memory, drive, and many other parts very likely will be from an American or Southeast Asian manu-

Intel CEO Andrew Grove says that Japanese computer manufacturers are "a surprisingly ineffective force."
—Karl Zinsmeister

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facturer. The internal software that makes it useful will be all American. And, yes, when you buy an Apple or an IBM it also will include some "non-native" components. But it is comparative advantage, not MITI, that is responsible for this division of tasks. Japanese manufacturers as much as Americans are now finding that assembly lines in Korea, Singapore, China, Thailand, Indonesia, or Mexico are the best places to produce lower-value commodity components. The fact that American companies have led this shift is not to be mourned. The best way to make a small fortune manufacturing low-margin electronics commodities today is to start with a large fortune—as money-losing NEC, Fujitsu, and others now are discovering.

Smart companies and countries are concentrating increasingly on adding knowledge to products, and are leaving much of the steel- and silicone-beating to poorer countries. If you consider this general practice to be a retrograde one, well, then it is time you started making all your own socks.

Point Five: The Gangsters need more economics lessons. The only figures that impress industrial policy advocates are the gross ones—how much product an industry puts out, the number of people it employs, *etc.* (By the way, the crude dollar-denominated figures on steel sales cited in the Gangsters' letter are ridiculously misleading.) What they like to ignore are the large, usually hidden, costs of government subsidies, tariffs, import limits, anti-trust exemptions, and other measures that are used to build up industries artificially—and all the other uses to which that money could have been put instead.

The costs of force-feeding the Japanese steel industry have been paid over decades and decades—by consumers in the form of higher prices, by taxpayers, by other companies who were hurt by the government interventions. These factors are very easy to overlook. Just because the Japanese steel industry is now big, smoky, and selling lots of sheets and girders is no evidence that the industrial policy produced a large positive net value. The reality is that by the mid-1980s, 40 percent of Japan's hugely costly blast furnaces had fallen idle. In first overbuilding and then "down-adjusting" steel capacity, MITI wasted an enormous trove of national resources.

It is because MIT professor Paul Krugman is a liberal economist friendly to Clinton administration policies that I chose to quote his conclusion that MITI's steel buildup "reduced Japanese national income." (He is also a good scholar who knows far more about Japanese steel than any of the A-to-Z signatories.) I just as well could have cited Hideki Yamawaki's research showing that MITI's steel policy "often lacked an appropriate consideration of its impact on the efficient allocation of resources.... As a result it may have reduced domestic economic welfare." Or University of Tokyo economist Ryutaro Komiya's citation of MITI's steel interventions as "policies for which it is almost impossible to find any positive benefit from an economic perspective, yet about which the responsible bureaucrats are enthusiastic and raise a fanfare." Once again, the Gangsters are peddling false information—picked up by spending too much time talking with their interventionist counterparts in Japan, and too little time studying Japanese economic statistics and history.

The argument of industrial policy advocates is that the Japanese are scheming, market-closing fiends—and we had better become just like them.
—Karl Zinsmeister

The invocation of Nippon Steel and USX is one more small tip-off to the lack of current business understanding in this pathetic letter. USX has been a follower rather than a leader among U.S. steel producers for more than a generation. Nimbler companies like Nucor Corporation and Chaparral Steel Company have been remaking the U.S. steel industry completely, and it is quite likely that Nucor will replace U.S. Steel as this country's largest producer by decade's end. Nucor and Chaparral already run four of the world's five lowest-cost steel plants, according to a recent analysis by PaineWebber, and they have pulled the U.S. steel industry into a position of once again being more efficient overall than their Japanese counterparts.

Meanwhile, Nippon Steel has recently closed three of its 13 blast furnaces and is currently ridding itself of two more. It still has 14 million tons of excess annual capacity. Its crown-jewel Kimitsu Works does not even rank among the 40 lowest-cost mills in the world at present, according to the PaineWebber study. The other big steel makers in Japan are all in the same situation. "The Japanese steel industry is losing its competitiveness," says Masanari Iketani, Tokyo Steel's president. Innovation in Japanese steel is now coming from smaller companies that are quite explicitly following the lead of the United States's Nucor. Busy as they are trying to cobble together welfare packages for the likes of USX and Nippon, government industrial policy advocates on both sides of the Pacific have managed to completely miss this revolutionary shift to new efficiency in steel.

Point Six: No doubt, the Japanese government "desires" to build lots of "purely Japanese" jet and space-launch vehicles. The point of the matter is, pouring very large sums of public money down various ratholes hasn't made that desire any closer

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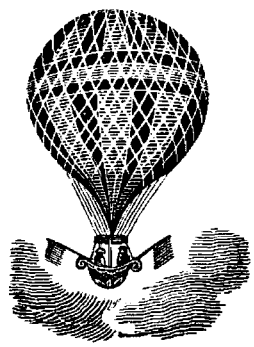
to reality. Aerospace is an industry that has been "targeted" longer, harder, and more wistfully than almost any other in the Japanese economy. Now where's the beef? All that has been produced is technical embarrassments and exorbitant costs to the larger economy. This clear lack of results is excellent evidence that when Japanese industries and firms succeed it is for reasons other than because government bureaucrats desired them to.

Point Seven: More phony numbers. Japanese airlines have high revenues and load factors mostly because flying is still a financially-rationed luxury in Japan, something that remains beyond the reach of many average consumers, whereas jet travel has been thoroughly democratized in this country. From behind the protection of government-erected walls, Japanese carriers have gorged off their captive passengers for many years. But now, new airport capacity and global regulatory liberalization are forcing the Japanese carriers to meet competition for the first time, and those easy loads and fat margins have disappeared. JAL's net revenues have fallen to one-quarter of their levels of just two years ago.

Once again, our 33 industrial-policy-peddlers have presented a time-capsule argument that is almost a decade out of date. It is surely true that JAL grew fat and jowly during the 1980s while government-engineered sky-closings allowed it to fleece its customers. But in the open competition/low fares era that has now dawned, JAL is a relic—one of the highest-cost carriers in the world. On the trans-Pacific routes where JAL must go head-to-head with American carriers, the same fares represent JAL's least profitable flights and the American carriers' most profitable flights. Absent some dogged anti-consumer/pro-company foot-dragging by the Japanese government, Southeast Asian and American carriers now would be dining on the company's carcass.

As it is, JAL is in trouble. Its share of international travelers to and from Japan has fallen from 30 percent to 24 percent over the past decade. JAL's one saving grace has been its recent privatization, which gives it the opportunity to adapt to the new realities of air transport. And just in the nick of time: once the Kansai airport and the Haneda and Narita expansions are completed over the next few years, reducing severe runway bottlenecks that conveniently have kept foreign carriers out, the day of reckoning will have arrived fully.

Point Eight: The Gangsters concede that NTT is behind foreign counterparts. They then pip weakly that "in hardware and in services, the Japanese telecommunications industry is gaining in world competitiveness." That undocumented plati-



tude may or may not be true. The real issue, however, is one that the Gangsters completely ignore: why has NTT been a laggard up to now? The answer: because it has been a nationalized, highly protected instrument of Japanese industrial policy. If NTT is currently becoming more progressive and competitive, what accounts for the change? The answer: the company is being privatized, and cut off the government sugar teat.

The weak performance of NTT and other Japanese equipment and service suppliers is a direct result of their entanglement with Japan's planning bureaucrats. To the extent they are able to disentangle themselves, they probably will do just fine. Still, judging by the way the Ministry of Posts and Telecommunications and its charges recently have slowed or fouled up Japan's cellular phone, cable-transmission, and satellite-broadcast markets, the Gangsters might not want to hold their breath waiting for the shiningly competitive moment they promise is coming from Japanese telecoms.

Point Nine: Sorry, Gangsters—you're simply wrong that I'm "simply wrong." The OECD statistical periodical I pulled off my bookshelf for my agricultural labor-force number ("Historical Statistics," OECD, Paris) lists "employment in agriculture as a percentage of civilian employment" as 8.5 percent in Japan and 3.1 percent in the United States in 1986. Whether marginally different figures from a different source or for different years are available is irrelevant. My point is that Japan, a country that has far less good reason to be involved in significant agricultural production than the United States, given the respective land bases, nonetheless has almost three times as big a chunk of its labor force toiling in farming. Why? Because of absurd government subsidies and controls that keep people growing rice in downtown Tokyo on plots the size of James Fallows's desk. Incidentally, the U.S. figure includes our foresters and fishermen just as the Japanese figure does, and the average age of our farmers is also extremely high. I think Mr. Fallows, who seems to have drafted most of the above letter, should hire a good statistical assistant.

In Your Face

In sum, more than 2,000 words of needling from the Gangsters leaves me not wanting to retract anything. In fact, I'd like to rub a few more noses in the mess Japan's industrial policy warriors have left behind.

You will note my critics do not even mention the big, obvious disasters: the Japanese Railway (which is

Globalization is a central and irreversible aspect of contemporary economics. It has many benefits. And it is happening in every country.
—Karl Zinsmeister

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actually the bit of Japanese industrial policy that Bill Clinton seems likeliest to try and copy at the moment), the HDTV debacle, Japan's weak pharmaceutical and biotech sectors (which MITI and the Ministry of Health have coddled and spoon-fed relentlessly), the satellite-broadcasting calamity that is just now unfolding. It was engineered by the Postal Ministry in classic style—rather than allowing competition, 190 companies were forced to join together into a single, hapless, entity headed by a postal ministry bureaucrat.

America's industrial policy knights are also strangely silent on Japan's shipbuilding, mining, smelting, and energy policy screw-ups. They don't mention the government's miserable highway- and airport-building programs. They ignore MITI's flaky schemes for underwater cities, the hi-tech white elephants like "Portopia" and the artificial island in Osaka Bay, and the multi-million dollar project on "mental telepathy" that MITI announced earlier this year.

These government flops have squandered huge amounts of public and private money. Worse, they have damaged critical swaths of Japan's private sector, relegating some to second-rate status.

Just a few years ago, MITI-lovers in America were yodeling about how "12 of the top 15 international banks and six out of eight of the world's top brokerage houses" were Japanese. They were insisting global financial hegemony was just around the corner. Today, we know that the Japanese securities firms are about 15 years behind their American and European counterparts in trading sophistication, and, thanks to extensive collusion with the Ministry of Finance, also have extremely dubious ethical integrity when it comes to advising and trading for customers. The banks, meanwhile, are staggering to adjust to the abrupt ending of the government enforced no-return-to-depositors/free-capital-to-corporate-borrowers era.

And over the past decade, public malpractice and private misfeasance in Japan's financial services industry has helped little guys and big guys alike lose an enormous portion of the hard-won capital that Japan piled up earlier in the 1980s. Non-

descript European oil paintings, overpriced American golf courses and skyscrapers, rigged securities, and worthless land deeds at home were favorite black-hole money sinks. Huge sums also were wasted building excess manufacturing capacity that now sits unused in numerous industries. The economic squanderings of the "bubble economy," many encouraged if not engineered by government ministries, rank literally in the hundreds of billions of dollars. A crying loss.

One other important connection that industrial policy boosters seem unable to make is that between Japan's incestuous business–government ties and the rampant corruption that is eating away at Japan's political system. The last half-dozen Japanese prime ministers or prime ministers-in-waiting have been dragged down by influence-buying and related scandals—the latest incident involved a top politician who skimmed up a fortune of at least $51 million. The fact is, this massive rot is tied directly to Japan's use of industrial policies. It is because the politicos so often have arranged economic outcomes and picked business winners and losers that Japanese companies have gotten into the habit of routinely buying politicians, rigging rule-making, and fixing bids—with bribes, favors, and even pressure from mobsters. Enthusiasts for "government-business collaboration" ought to wake up to the fact that it nearly has been the death of Japanese democracy.

Perhaps most interesting of all, American industrial policy peddlers ignore the extent to which the Japanese themselves have grown wary of government–corporate fiddling. Even architects of the original MITI policies—like Naohiro Amaya—now are saying that modern economies are too complicated for government ministers to manipulate effectively.

Absurd government subsidies and controls keep people growing rice in downtown Tokyo on plots the size of James Fallows's desk.

—Karl Zinsmeister

Delivery Boy with a Lexus

Beyond their many research flubs, my critics and I clearly have very different worldviews. Readers looking for a one-stop distillation of their alternative could do hardly better than to refer to the May 1993 issue of the *Atlantic*. There you will find an article written by one of the Gang of 33 (Fingleton), vetted by another (Fallows), and built very heavily on quotes credited to five others. The article is well-larded with classic industrial-policy nostrums. It is also a snarl of puffery, misinformation, alarmism, and economic snake oil.

There are, for instance, 10-foot-tall claims that "Japan's per-capita income finished last year ... a stunning 42 percent ahead of Americans." It would be very interesting to hear the author of this statement explain why such super-rich Japanese own less than half as many cars and one-third fewer telephones and televisions per capita compared with us poor Americans, why they have houses that are about half the size of those in Europe or America, why they eat less meat, fruit, and vegetables. Frankly, I am aghast that there are still national writers out there

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who don't realize that the only sensible way to compare income levels across countries today is by using the purchasing power parities that international economists have worked hard to perfect over the past decade. Or perhaps this author did know that but chose to use wildly inaccurate unadjusted figures anyway because he did not like what the purchasing power data show: 25 percent more buying income per head in America.

If you buy a Toshiba laptop today, it will have an Intel microprocessor manufactured in California or New Mexico as its functional heart.

—Karl Zinsmeister

This archetypical article also cites Japan's serious labor shortages as, startlingly, a sign of national well-being—instead of a symptom of the country's serious demographic problems, its inflexible wastage of labor in industries like retailing, distribution, and white-collar clerking, and its irrational aversion to the use of female and/or immigrant talent. "Nowhere is Japan's robust economic health more apparent" than in the existence of labor shortages, intones Fingleton. As an example of "vigor," Fingleton describes a parcel-delivery company that pays "young men straight out of school nearly $100,000 a year" and still ends up chronically shorthanded. This bit of reasoning makes it easy to understand why American labor unions are so chummy with industrial policy theorists. Personally, I think this is a kind of robust vigor America ought to do without.

As the article progresses, the economic logic gets even richer. The hundreds of billions of dollars in financial losses that resulted from the recent collapse of the Japanese stock market—which government policies had grossly overheated—were a good thing, not a bad thing, Fingleton reassures us: "Big corporations profited handsomely by selling vast amounts of securities at inflated prices. The buyers, typically rich private citizens or small entrepreneurial companies, since have seen a severe diminution of their financial strength—but this actually has been in a good cause. Not only have the corporations that are the key agents of the country's industrial policy been enriched, but the egalitarianism of Japan's all-important social contract has been reinforced."

Whew! This guy must have loved the stock-market crash of 1929. His ramblings are, first of all, factual bullhockey: millions of small savers, retirees, and other little investors lost their nest eggs when the Tokyo bubble burst. In addition, this paternalistic notion that any pain that has benefits for big corporations must be good pain is as offensive to most Japanese as it would be to most Americans. By this *Atlantic* logic, the U.S. government ought to be colluding with Exxon, GM, AT&T, and others to engineer stock market manipulations that would enrich the corporate mama while taking money away from overly wealthy small entrepreneurs and evil "rich private citizens."

In a masochistic drive to make sure we do not overlook his argument, Fingleton applies the same syllogism to Japan's recent real estate collapse. Don't worry, he says, "the victims have been almost entirely small-scale real estate companies and their lenders; Japan's all-important industrial economy has remained sheltered from the turmoil." Again, there is factual nonsense: Japan's large banks and life-insurance companies have been hurt badly by real estate losses, and this will reduce or eliminate their ability to finance new industrial borrowing for years. Moreover, don't the economic interests of small companies and small people count too? Aren't they equally entitled to a fair and sensible set of national economic policies? Alas, industrial policy mongers stand with the fascists on this—only big enterprises count.

The naïve foolishness goes on and on: "Criticism of the banking system has centered on the Tokyo bureaucrats' apparently erratic handling of financial regulation in recent years—but there may well be an important industrial-policy rationale for this. Chalmers Johnson is among a group of well-informed Japan-watchers who believe that recent financial events have been stage-managed by the Bank of Japan in a bid to force mergers in Japanese banking." Those crafty Orientals are at it again! Bankrupting their own institutions in a plot to build an even bigger steamroller. Thanks for the insight, well-informed Japan-watchers, but this is something that only the most ingenuous Japan, Inc. enthusiast could dream up.

Honestly, there are times one doesn't know whether to gape scornfully at America's industrial policy advocates or feel sorry for them. The aforementioned Chalmers Johnson, for instance, recently called for an elaborate mix of government subsidies, trade protections, tax breaks, and anti-trust exemptions to benefit targeted U.S. companies. (Readers will not be surprised to learn that some elements of America's Cold War-deprived military–industrial complex now are moving rapidly toward the "industrial policy" camp.) Mr. Johnson then urged ever so earnestly that the government aid

Enthusiasts for "government-business collaboration" ought to wake up to the fact that it nearly has been the death of Japanese democracy.

—Karl Zinsmeister

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granted in each case "should never be discussed in public," because "a strategy known to one's opponent can also be defeated by him." Secret tariffs, appropriations, and waivers in Washington. Can anyone who earnestly proposes such phantasms be taken seriously?

Let me close with this word to our readers: the issue we are arguing over is not whether Japan is an economically impressive country. It is, in spades—as I have argued in "MITI Mouse" and elsewhere.

The real question is, what has made Japan successful? Are a group of 10,000–20,000 bureaucrats and public-sector wisemen—strangely like the 33 signatories above, except Japanese—responsible? Or does the credit belong instead to an extremely competent private economy and culture?

Studying the actual effects of the much-mythologized policies promulgated by MITI and other agencies makes it crystal clear that government planning is not Japan's secret. Ministry planning may have had some justification as an emergency postwar measure, but it outlived its usefulness by more than 30 years. For a full generation now, government economic steering has been a net intrusion on Japan's economic progress.

There is no question that Japanese companies are formidable competitors. And there is no question but that some aspects of Japan's trading system are unfair and need fighting. But a government-engineered industrial policy is the very last thing that American companies need in the international contest ahead. We must learn from what's good about Japan, not from what has been discredited and discarded.

Over There

Dear Sir:

I read with interest Philip Merrill's article "Old World Order: Not All Yanks in Europe Should Come Home" from your Spring 1993 issue. Out of all the official documents or commercial media I have read, this article provides the most compelling and coherent statement of:

- the enduring U.S. strategic interest in a stable and secure Europe;
- the central role of NATO in ensuring European security;
- the criticality of continued U.S. leadership to the future of the alliance; and
- the importance of a credible forward presence of U.S. military forces in Europe to sustain alliance leadership.

Mr. Merrill correctly points out that the massive Soviet and Warsaw Pact military threat present at the end of the Cold War has been replaced by the reemergence of long-suppressed ethnic and nationalist conflicts in and around Europe. The impact of these conflicts on regional stability is exacerbated by the proliferation of weapons of mass destruction and sophisticated conventional weaponry. As a result, I believe that the 171,000 soldiers, sailors, airmen, and marines currently assigned to the United States European Command are the busiest of any in the U.S. Armed Forces. In the former Yugoslavia we are supporting United Nations peace-keepers on the ground, enforcing the arms embargo aboard ships in the Adriatic, and providing 24 combat aircraft for NATO's no-fly zone over the skies of Bosnia-Herzegovina. We continue to deploy over 1,800 personnel and 32 combat aircraft in northern Turkey to enforce another no-fly zone and protect the Kurdish people from Iraqi aggression. We also are supporting humanitarian relief operations in the former Soviet Union, focusing most recently on providing excess military hospital equipment. Additionally, in the past months we have conducted crisis or humanitarian operations in seven other countries within or neighboring our area of responsibility, which extends from the North Cape of Norway to the Cape of Good Hope in Southern Africa, and from Europe's and Africa's Atlantic shoreline to the troubled Levant—Israel, Syria, and Lebanon—and much of east Africa.

Mr. Merrill also rightly points out that militarily significant forces are required to meet this wide range of mission requirements, albeit at lower levels than the 314,200 military personnel in Europe during the height of the Cold War. Since the Berlin Wall came down we have withdrawn 45 percent of the U.S. troops who were in Europe and returned 37 percent of the installations we once occupied. When our drawdown is completed in 1996 we will have withdrawn 68 percent of the troops and returned 61 percent of the installations. This drawdown is the most massive military operation of its kind in Europe since the end of World War II, and has stressed our people, both military and family members, and logistics systems to the limit.

A force structure of 70,000 to 80,000 troops based on a couple of light divisions simply will not provide sufficient military capabilities.
—Lt. General Robert D. Chelberg

By the end of 1996, the drawdown will result in approximately 100,000 assigned military personnel remain-

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ing in the U.S. European Command. We strongly believe that this is the "right" number from both the political and military perspectives, and that lower force levels will not maintain the solidarity of the NATO alliance, provide all required crisis-response capabilities, or support U.S. basing infrastructure. Therefore, I believe that a force structure of 70,000–80,000 troops centered on a couple of light divisions simply does not provide sufficient or credible military capabilities.

Of our approximately 100,000 assigned forces, about 60 percent are required to sustain the full framework of an Army corps with the preponderance of two maneuver divisions forward, in addition to the full range of combat-support multipliers—such as aviation, artillery, communications, and intelligence—and combat service-support—logistics, transport, and medical—capabilities. We also retain adequate airborne and special forces battalions for immediate crisis-response missions, but to restructure the force around light infantry divisions would both violate specific force commitments to NATO and deny us combat multipliers and logistics capabilities that are critical for emerging humanitarian assistance and peace-keeping requirements.

The soldiers, sailors, airmen, and marines of the European Command are the busiest of any in the U.S. Armed Forces.

—Lt. General Robert D. Chelberg

About 30 percent of our forces are assigned to an Air Force component that provides balanced and flexible airpower capabilities—offensive and defensive air combat, air mobility, air refueling, and air reconnaissance—deployed at air bases throughout the European theater. The remaining 10 percent of our personnel are assigned to naval bases ashore supporting our fleet in the Mediterranean.

We in the United States European Command believe that our credible commitment force is the minimum level to protect U.S. strategic interests in a secure and stable Europe. Once again, we thank you for a fine article.

Robert D. Chelberg
Lieutenant General,
U.S. Army
Chief of Staff,
United States
European Command
Stuttgart, Germany

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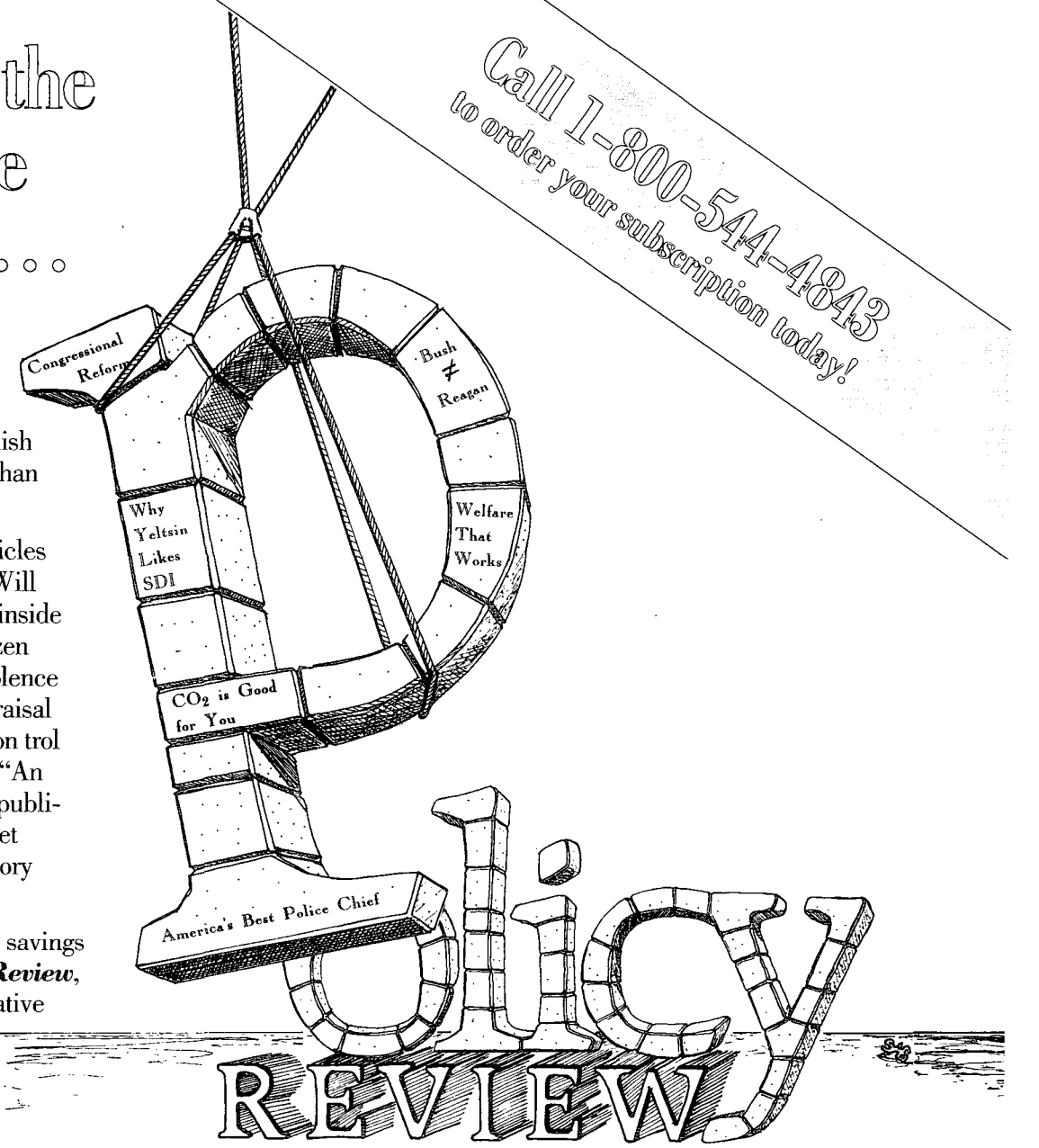

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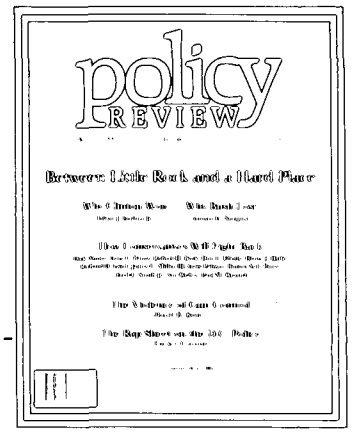

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policy REVIEW

The pro-family movement has limited its effectiveness by concentrating disproportionately on issues such as abortion and homosexuality. These are vital moral issues, and must remain an important part of the message. To win at the ballot box and in the court of public opinion, however, the pro-family movement must speak to the concerns of average voters in the areas of taxes, crime, government waste, health care, and financial security.

Ralph Reed Jr.
Casting a Wider Net:
Religious Conservatives Move Beyond Abortion and Homosexuality

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